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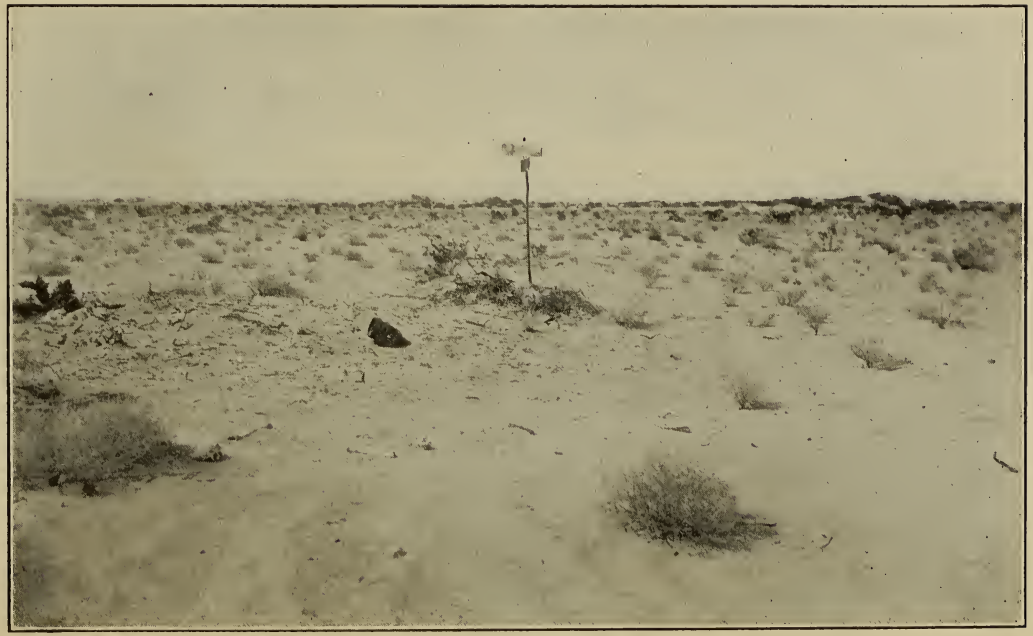

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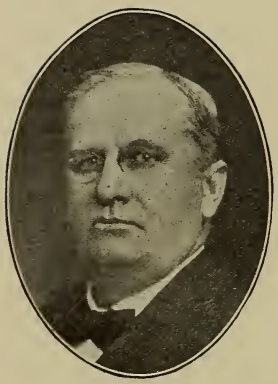

MORTGAGE LOAN VALUES

A Few Comments on Various Matters
Pertaining to Real Estate Mortgages

By

BENJAMIN H. DUGDALE

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PREFACE

Mortgage Loan Values is, as its sub-title states, a series of "comments upon various matters pertaining to the mortgage loan business."

This book is intended for the use of investors in Real Estate mortgages and of those persons who may be called upon to act in an advisory capacity to such investors in passing judgment upon the physical, moral or legal features of Real Estate securities.

None such can read it without profit and few, having once read it, will be willing to dispense with it as a reference book, for it will often enable them to avoid errors which might result in unsatisfactory experiences.

The treatment of the subject is in no sense technical nor theoretical but is simply a few discussions of practical questions which are apt to arise in the mortgage loan business and is written by one whose experience in such matter has extended over many years and into many different sections of the country.

The book contains a number of valuable tables and sketches, some of which are difficult or impossible to find elsewhere and which add much to its practical value.

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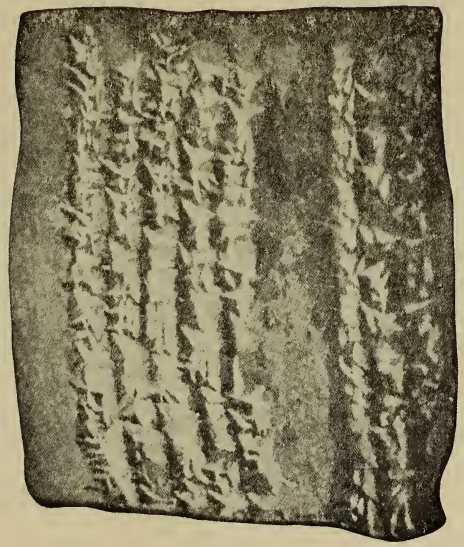
The Oldest Known Mortgage



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Translation

Thirty bushels of dates are due to Bel Nadin Shun, son of Marashu, by Bel Bullitsu and Sha Nabu Shu, sons of Kirebti, and their tenants. In the month of Tashri (month of harvest) of the 34th year of King Artaxerxes I they shall pay the dates, thirty bushels, according to the measure of Bel Nadin Shun, in the town of Bit Balatsu. Their field, cultivated and uncultivated, their fief-estate, is held as a pledge for the dates, namely, thirty bushels, by Bel Nadin Shun. Another creditor shall not have power over it.

The illustration shown on the opposite page together with its translation, for which I am indebted to the kindness of S. W. Strauss & Company, represents a clay tablet which is said to be the oldest record now in existence of a mortgage security although such mortgages are said to have been used among the Babylonians for many years prior to the date of this one.

MORTGAGE LOAN VALUES

I

THE DESIRABILITY OF REAL ESTATE SECURITIES

During what are known as "good times," when everything seems to be working together for prosperity, Capital is inclined to encourage the launching of new, and the enlarging of old enterprises.

The wheels of manufacture grow busy, the paths of commerce become crowded, and Capital, being venturesome when anticipating large profits, is apt to overestimate the value of the securities offered and to proceed along lines which at other times might be considered hazardous.

Under such conditions, mining, manufacturing, transportation, banking and mercantile enterprises all apparently flourish, and the securities which they offer often sell readily upon the market even when a careful analysis would fail to demonstrate their stability.

Capital, however, although sometimes inclined to be greedy, is also easily alarmed, and, when losses occur, as they are apt to do under very liberal credit conditions, it at once develops greater caution, it depreciates its own former valuations and demands a larger margin of security. Its confidence is so easily disturbed that if many losses occur it soon becomes

inclined to doubt all securities and even to withhold its support from undertakings which really give good promise of success, and which, if properly financed, might prove to be very profitable. These conditions are frequently spoken of as "hard times," and at such times new enterprises are often unable to gain a foothold, while old ones halt along the road and sometimes fall by the wayside. Thus the financial credit pendulum swings a little too far on either side of the perpendicular of sound business sense, which indeed it is compelled to do, for its use and safety depend to a great extent upon its compliance with the spirit of the times.

A condition of financial uncertainty and depression naturally brings about a period of liquidation and a readjustment of values, and causes inquiry to turn to the least easily affected securities. It is at such times that we most often hear it said that Real Estate Mortgages afford the best security obtainable, for nothing else seems to stand upon so solid a foundation, inasmuch as Real Estate is less sensitive, except in special instances, to adverse financial conditions than are the stocks, bonds, and other securities which command as good a rate of interest.

Although such a conclusion may not be true in each individual instance, in a general way it is true, and is a view of the matter which appeals very strongly to those who have charge of trust funds, whether of the many millions held by the great Insurance and Trust Companies, or the few hundreds guarded by the individual for the future use of his family or for his own old age, for upon such persons rests not only

the principal obligation of safe investment, but also the necessity for such investments as will return a fair rate of interest, and which, once placed, may remain undisturbed for a reasonably long time.

The practice of pledging property to secure the payment of debts is ancient and universal, and by virtue of law and custom it extends, at least indirectly, to almost all credit transactions.

If the person borrowing money or otherwise contracting a debt is possessed of a sufficient amount of property, the debt, in the ordinary course of business, is considered to be well enough secured, even if there is no definite pledge of specified property, provided, of course, that its payment may be called for within a limited time, but, when the maturity of the debt is postponed for a considerable length of time, such for instance as for a term of years, the simple fact that the present property holdings of the debtor or his indorsers are sufficient, adds but little strength to the security, especially if their holdings are of such a character that they can be easily or quickly dissipated or transferred to others without the consent of the creditor.

The direct Real Estate mortgage overcomes this objection, and the use of this form of security is also an ancient one. (More than a thousand years ago Sighelm, an Anglo-Saxon warrior, pledged his lands at Cooling to Goda to secure the payment of thirty pounds which he had borrowed, and his daughter, who inherited the lands, had to repay the loan in order to "cleanse" them of the debt, although she was then the Queen of England.) It is true that Real

Estate value often enters, either directly or indirectly, into the security offered by stocks, bonds and municipal securities, and that it sometimes constitutes a large part of such security, but in this form it is too far removed from any control by the investor to be properly classed as Real Estate security, and it is not often held in as high esteem by those whose main object is the safety of their investments as is the direct Real Estate mortgage, which, while not so liquid in its character, nevertheless affords a right of recovery from property that, to them at least, is of a more tangible form and value.

There is, however, a necessary slowness about all Real Estate transactions which must be taken into account. Almost all agreements concerning it must be in writing and many of these are required to be made matters of public record; if it is taken as security, a careful and unhurried examination of the physical features and of the title to the property is also necessary, for no general investigation can be depended upon to determine the value and ownership of any individual holding as may be done in the case of stocks or bonds, nor can any specific investigation for one transaction in Real Estate be made to cover fully the requirements for subsequent transactions; and if the payment of a debt secured by mortgage is defaulted, foreclosure and recovery is in many States rather a slow process, and if it is bidden in by the mortgagee still further delay is apt to accompany the conversion of the property into cash.

For these reasons Real Estate securities while among the safest to be had are not so satisfactory to

those investors whose needs may at any time require a quick realization upon their assets.

Such things, however, do not necessarily affect the soundness of mortgage securities; on the other hand, they supply reasons for a somewhat higher rate of interest, accompanied by a maximum of safety, being obtainable, and in contrasting them with the more liquid securities, the rule does not apply that a higher rate of interest inversely indicates the value of the security, although in its other applications, that is, in comparing the individual securities of either class with others of the same class, the rule is undoubtedly a sound one.

II

THE MORTGAGE LOAN BUSINESS

TAKING the country as a whole, the mortgage loan business is one of vast proportions and importance; it has followed wherever Real Estate has gained a market value, and its importance has gone beyond the benefits accruing to those immediately concerned and far into the field of general business and general development. The great bulk of the money so invested is made up of trust funds which are composed principally of the savings of a vast number of persons of limited individual earning capacities, and these funds are entrusted to the care of the many Insurance Companies, Trust Companies and Savings Banks.

Under this plan, not only is no account too small to yield its proportionate earnings to its owner but, as the company or bank to which the money is intrusted usually makes either large loans or a large number of loans, it is in a better position to give borrowers attractive rates and terms than is the small investor, principally because its overhead charges upon a percentage basis are proportionately smaller.

If it makes a large number of loans it is also enabled to grant more liberal prepayment privileges to borrowers and yet suffer less proportionate loss of interest by reason of loan funds lying idle than would probably be suffered if the investments were few in

number, and with this advantage it is able to attract the better class of borrowers whose securities entitle them to the best terms which the market allows.

If the business is in any sense an extensive one, however, either in the amount loaned or the number of loans made or in the territory covered, its success absolutely depends upon its being conducted along very conservative lines. On the other hand, the investor who makes only a limited number of loans and makes these in a territory with which he is familiar, to persons whom he knows personally, and upon property with the value and merits of which he is well acquainted, will frequently accept securities which would not pass the scrutiny of any expert in this line, and, although he may even ignore important rules of procedure in making them, he is usually able to avoid any ultimate loss. Being upon the ground he is able to keep in close personal touch with his investments and protect them if necessary; he is therefore in less proportional danger of suffering loss than he could possibly be in his average investment if his operations were extensive, or if, for any other reason, the intimate personal conditions did not exist.

It is not the purpose of these comments, however, to point out how far, or upon what occasions, it may be safe to vary from the beaten lines followed by the more careful class of lenders, but rather, simply to call attention to the main principles underlying mortgage loan values, and to some of the conditions affecting those values which are most apt to be encountered in the ordinary course of a mortgage loan business.

If it is desired that a high degree of safety shall

be combined with reasonable earnings, it is important that the rules affecting such securities should be clearly understood and intelligently applied.

To do this successfully requires a good working knowledge of the whole subject, unless indeed the transactions are confined within very narrow limits, for, while a number of mortgage loan rules are general in their character and apply to all such loans, the importance and applicability of other rules vary as the general class of property or the surrounding circumstances may differ.

While no theoretical knowledge of this subject can be said to be dependable, except as interpreted by the light of a practical knowledge, it is believed that such a discussion may be interesting and possibly of use, not only to those who are engaged in lending upon or investing in Real Estate securities and to whom these comments are especially addressed, but also to those whose interest in the matter is a less direct one.

In this discussion many very simple and apparently obvious matters will be mentioned, the apology being that just such simple and obvious matters are often overlooked by those whose training in the business has not been such as to compel their consideration of each and every fact affecting the questions at issue.

It may also be mentioned that, notwithstanding any rules which may be cited, in no part of the mortgage loan business is the personal equation of minor importance, and practical "common sense" must interpret every rule in its application to any question to be decided, nor are these comments to be regarded as being in the nature of a text book on mortgage loans

but rather merely as a series of suggestions upon various features of the subject and warnings of certain dangers which may be encountered.

In order that there may be no misunderstanding nor confusion of the terms used herein it may be said that the term "investor" has been chiefly used to designate the person or company who procures securities from whatever source, purely for investment, and that the term "lender" has been used to designate the person or company always dealing directly with the borrower, and generally with the object of selling the loans to the investor.

Certain erroneous ideas of loan values are held by many persons, and if any such are entertained by the prospective investor or lender it is quite important that he should disabuse his mind of them before he undertakes to deal in such securities.

Some of these ideas seem absurd to those who have a knowledge of the subject, but to the uninformed their absurdity is not always apparent; for instance, it is supposed by some persons that a Real Estate mortgage is *per se* a good investment; this is not true, however, for the property value may be inadequate or unstable, the title may be defective, the net income may be insufficient, the personal hazard may be unsatisfactory, the time of maturity may be too long deferred or of too short duration, the location may be too remote from markets or other conveniences, or it may have any one or more of many other defects.

It is thought by some that an expert can determine the exact value of real property, but this cannot be done because of the fact that too much of the unknown

enters into each proposition to enable any expert to "split dollars" in his valuations, and he can only give approximate estimates.

It is also believed that because the interest of the borrower and the lender differ, they are antagonistic —that the average borrower is the unfortunate victim of circumstances and the average lender ever watchful of opportunities to oppress and overcharge him. Nothing could be further from the facts, for almost every borrower has or believes he has a more profitable use for the money than its rental cost to him, and almost every lender is willing to grant as easy and favorable terms as are consistent with the proper protection of his legitimate interests.

Nor is the belief uncommon that a greater volume of business may be obtained by the lender in hard times than in good times; but this is not the fact for in hard times the people are more economical in their expenditures and more conservative in their investments and there are fewer apparently profitable uses for money, but it may be remarked in passing that in hard times the lender's interests are more often safeguarded by the fact that there is then less danger from high property valuations or the unwise use by the borrower of the proceeds of the loan.

Another mistake which the investor should avoid is the provincial error of supposing conditions to be necessarily inferior ones because they differ from those that are found in the territory with which he is familiar. It is sometimes hard, for instance, for the person whose knowledge is confined to the wheat belt to realize that just as dependable values may

exist in the cotton belt and vice versa, or for one who has always lived in a section where there is a satisfactory rainfall to believe that irrigation has passed beyond the experimental stage.

Yet another common error is the belief that there are large sections where all of the land is practically "worn out," and he who lives in the newer parts of the North or West often so regards the older lands of the South and East. He looks askance even at the "red pebble" lands of Georgia, and regards nearly all of the balance as being practically worthless, although with proper care and management many parts of it may be made to produce as much net revenue as may the black loam of Iowa or the "black waxy" lands of Texas.

THE COTTON COUNTRY

III

BASIS OF MORTGAGE LOAN VALUES

ALTHOUGH subject to some exceptions, which will be referred to later, it is a general rule that loan values, (aside from questions of title and personal hazard) are based upon market and income values, and that these are based upon certain facts of which it is important that the investor or lender should have a general idea in order that he may have a clearer understanding of the main causes which promote the growth of such values or which, on the other hand, may tend to diminish or destroy them, for the only safe way of determining the soundness of any proposition is by examining the foundation upon which it rests.

Briefly stated, the physical foundation of mortgage loan values is made up of the two principal factors of population and fertility of soil, united by the third factor of transportation.

The first two are essentially the basis of all values, for population cannot exist without fertility of soil, nor can any value attach to fertility of soil without population, but in order that such values may maintain any degree of stability these two principal factors must be fairly well balanced; that is, both must exist where each is available to the other at a cost which is not too burdensome, and here the factor of transportation enters and furnishes the means to that end.

Nor is this factor of less importance, so far as exchange or loan values are concerned, than are the others, for it is also an essential factor in the establishment and maintenance of such values.

Neither is the term "transportation facilities" as used in this discussion intended to be confined to the ordinary means of moving products by railway or boat lines, but is intended to extend to country roads and city streets and all of the various public facilities which may exist for the transportation of persons or commodities and the lack of which causes otherwise desirable city and suburban locations and fertile lands to remain unimproved and unproductive.

Notwithstanding the fact that a section of country is new and undeveloped and its population sparse, if it is not barren its land may be said to have an income value, inasmuch as its products furnish food and clothing and shelter for its inhabitants; such supplies may be poorer and coarser in quality, and more meager in quantity and variety than they may afterwards become under more populous and advanced conditions, but, as they supply the needs of the inhabitants and require a certain amount of manual labor to secure them, the facts are much the same in either case, the difference being more one of degree than of kind.

Such an income value as this does not necessarily carry with it at first any rental or sale value which the possessor of the land might obtain by transferring its uses and profits to another, for under the conditions of a sparse population and abundant land, each may easily obtain for himself at either no cost or at a trifling one, such land as he may be able to use.

The development and appreciation in value of agricultural lands, and the growth of villages into towns, or of towns into cities, are due to many causes of which the increase in the local population is the primary one.

As the population increases conditions change; the natural resources of the section become better developed, the lands most suitable for agricultural purposes are taken up and divided under separate ownerships, roads are opened, and lines of communication and traffic with other sections are established, and, when persons come into that locality who wish to use or own lands that are held by others, Real Estate shows the beginning of a rental and a sale value.

As this development progresses and the population still further increases, churches, schools, and centers for trade and government are established, all of which encourage still further growth, and the former uncertain salability of Real Estate becomes more certain and crystallizes into market value.

With a few exceptions (notably that of Gary, Indiana) towns and cities have had small beginnings, but the sites originally selected for their location were usually so chosen for one or more of the various causes which go to promote urban growth, and, in some instances, these have really proved to be sufficient to that end, although in most cases they have been found to be wholly inadequate in themselves to any very large growth either in population or industries.

Under the primitive conditions of an early civilization, situations adjacent to hunting grounds and

places which afforded a good supply of water, timber, or pasturage were often favored, and under conditions where local warfare, robber bands, or hostile savages were a constant threat to the inhabitants, locations suitable to defense were chosen; the origin of many important cities may be traced to these primitive causes.

In later times, portages, the crossings of established lines of travel, water power for milling or manufacturing purposes, proximity to valuable mineral deposits or to large bodies of timber, convenient seats for local government, or centers for local trade, have all been common causes for the location of towns, some of which have afterward acquired considerable importance, although in a majority of instances they have shown very marked limitations.

While this has been generally true, other and at first unforeseen conditions have sometimes developed and have been so favorable to urban growth that the original village has afterward attained considerable importance as a town or city. It is said, for instance, that the two most potent reasons for the selection of the site of the present Capital of Indiana were the possibilities of a steamboat landing on White River and the water power afforded by Fall Creek neither of which afterwards proved to be of any practical value.

When a certain stage of development has been reached, mortgage loan values come into existence and they will always be found to have developed in accordance with the character and stability of the foundation upon which the market values have been built. If

these values have been based upon well balanced conditions the loan values are almost sure to be satisfactory; if upon unsupported promises of future development or illy balanced conditions, they are in the aggregate as certain to be unsatisfactory.

When a town is established, and the land which is used for that purpose is divided into lots, some or all of which are sold to separate owners, any loan value which the land may previously have had as agricultural land is at once almost or quite destroyed, and any loan value which may afterward attach to it must be calculated upon a different set of facts, for the more direct and active factor in its basis of value will then be its population and its suitability to the needs of that population instead of the fertility of its soil, as was the case when it was agricultural land.

In the case of the larger towns and cities it is also almost invariably true that although as a whole they may have the elements of growth, and even of large growth, certain portions of them will lack attractiveness. Sometimes this is for no very obvious reason although true to a degree which depresses the Real Estate market of that section, and it is also frequently true that when Real Estate promotions are undertaken, towns or portions of towns are built up and improved beyond what is warranted by any support which they can safely hope to command.

These facts should be kept in mind, for, although a certain degree of development is always necessary before any loan values can be said to be established, if such development or growth is one of the past but is one which has become stagnated, or if, on the other

hand, it is a recent one but has passed beyond that stage which is justified by the conditions upon which a stable market value can be based, the loan value in either case is always weakened and, in some instances, it may even be destroyed.

IV

CLASSIFICATION OF REAL ESTATE SECURITIES

PRELIMINARY to an intelligent discussion of the subject it is important first to recognize the fact that mortgage investments are naturally separated into two general classes which are known to those who are engaged in the business as "farm" loans and "city" loans.

These two classes of Real Estate securities differ from one another in many important respects and, while many of the rules of the loan business apply equally to either class, the differences are so many and so marked as to fully justify their separate classification.

These differences are due to the fact that although all Real Estate loan values are based upon the dual foundation of population and fertility of soil, the more direct and immediate cause of the inception and growth of city loan values lies in population, and that of farm loan values in the fertility and products of the soil.

In the actual work of making loans it becomes apparent at the very outset that this difference is not a superficial one; in one case the borrower must show a set of facts in his application different from those which are required to be shown in the other; and throughout all subsequent transactions both in the

making and during the life of the loan, certain differences must be understood and taken into account.

There is also a large amount of Real Estate which does not rightly belong in either of the above classes and will not be discussed here for the reason that it has no definite loan value except, indeed, a very limited local one. Such property consists of the various kinds of improved and unimproved Real Estate located in the country or in small towns and villages or upon the outskirts of larger towns, where there is an insufficient acreage to give it any farm loan value and insufficient urban development to give it any city loan value.

This list also includes arid lands and swamp lands and all oil, mineral, timber and range lands, when the soil and surface are unfit for farming purposes, or when they cannot be agriculturally developed except at a considerable cost, none of which is regarded as acceptable security.

There is no possible question, however, but that very high grade and satisfactory loans may be obtained from either of the main classes of Real Estate securities, but the fact must also be recognized that the terms "farm" loans and "city" loans are each subject to either a liberal or a conservative interpretation.

Thus the more conservative lenders and investors confine the meaning of the term "farm" loans to loans upon agriculturally improved lands and that of "city" loans to loans upon standard income property well within the limits of cities or fair sized towns; while those who are more liberal in their views ex-

tend the meaning of both terms to include less desirable locations, and less fully developed properties and also to include many properties in either class, the uses of which are confined to special purposes.

While an arbitrary line is thus drawn in each general class by the conservative investor separating certain kinds of Real property as being more desirable from other kinds regarded as less desirable, it does not follow that all on one side of that line are good nor that all on the other side are necessarily bad; and it is no doubt true that such a rule excludes many offerings both of farm and city loans where the property has, not only a present market value, but where it has also a present or potential income value that would seem to justify a loan value.

Such loans are usually refused for the arbitrary reason that the class to which they belong is an undesirable one or because it is believed that the security rests too much upon the development or maintenance of certain favorable conditions not yet fully established, and that while the security may have both the promise and prospect of the needed support, there is, nevertheless, an element of uncertainty as to future happenings and future values which is not attractive to a conservative investor.

The desirability of such securities grades from the very highest down to those offerings which are simply impossible, and the line is generally intended to be drawn at a point which will exclude the various kinds of property that, as a class, are each liable to certain loan faults, although it is not usually intended that the rule shall be applied with such rigor as to exclude

the individual exception which is not seriously affected by the faults of its kind.

One example of this may be seen in the fact that timber, orchard, and range lands are usually excluded, except by local lenders, as belonging to an objectionable class, although in the individual instance it is readily admitted that a certain amount of timber, orchard, and permanent pasture may add to the average acreage value of a farm rather than detract from it. Another example may be found in the fact that a city property which is classed as being a special purpose property, because such is its intended and present use, may have an availability for other purposes which will give to that individual offering a perfectly legitimate loan value notwithstanding the fact that theoretically it belongs in an undesirable class.

Various kinds of Real property, however, which may be fairly listed as "city" property or as "farm" property are nevertheless open to objections when viewed from a reasonably conservative standpoint; this list includes the cheaper class of city properties which are too liable to material depreciation and the very costly residences which will pay no adequate cash return upon the investment and which will seldom be found to be marketable except at a great sacrifice.

It includes vacant lots and very generally includes all such "special purpose" properties as churches, schools, halls, hospitals, lodges, theatres, hotels, mills and manufacturing plants.

It includes those lands which in their present state or location or uses are only potentially farming lands

but which may be reclaimed in time or developed at a nominal cost, such, for instance, as those that lack a proper equipment in fences and buildings, or those that are too remote from markets to have a satisfactory net income value or are so poorly located as to have no "social" value, or lands which are used for such special purposes as orchards, etc., or those which have too large a proportion of "bone" or are either too wet or too dry for profitable farming but may be easily drained or irrigated.

From a loan point of view none of the above kinds of property is very attractive and a strictly conservative view excludes them, although a more liberal view finds occasional exceptions in individual offerings from among them.

It may be the part of wisdom not to attempt too rigid a classification and to recognize exceptions when they are well defined, considering each offering upon its individual merits, but in doing so there is the danger that a door will be opened through which doubtful loans may crowd unless it is very wisely guarded.

The strict rule in this matter, however, is no doubt the safe one, for the temptation is always great to allow the action in one case to establish a precedent for other cases where the conditions may not be exactly similar, and there is always the chance that outside interests, greed or optimism may incline the investor to stretch a rule that has come to be regarded as being an elastic one.

Whatever practice is followed in this matter it should be remembered that certain kinds of property

have not been excluded by conservative investors except for sound reasons. It must also be remembered that in going outside of the regular lines many unfavorable facts may escape notice, and that if the kinds of property which are not fully acceptable under strict rules are arbitrarily rejected it will at least leave a safer field for mortgage loan investments; and it may be repeated here that those legitimate and safe Real Estate securities concerning which there is no element of doubt from a physical point of view, will be found to be principally confined to two general classes, to-wit, farm loans and city loans, as these designations are understood by conservative lenders.

The one class embraces only such lands as are either wholly or in a large part agriculturally developed and of a general productivity that justifies their value, and the other only such well located and substantial business or residence properties as have a satisfactory income value and a satisfactory "balance" of ground and improvement values.

UNATTRACTIVE FARM

V

FARM LOANS VS. CITY LOANS

It is perhaps an open question as to which general class of Real Estate securities is the more desirable one, for each has some advantages and some disadvantages peculiar to itself, and the proper answer to the question probably is that it is that class of which the investor has the most intimate knowledge and the most complete equipment for its investigation.

The bad loan is the individual loan of either class. It is the one which has been selected without due caution or without due knowledge of that branch of the loan business to which it belongs; but both farm loans and city loans, when they have been properly selected, will prove to be very safe and satisfactory either as investments or as salable securities.

Lenders, or those who procure mortgages for the market, very generally operate only in the one class for which their territory and their knowledge and equipment are best fitted, but investors are very generally ready and willing to consider both farm loans and city loans, provided that their knowledge and equipment are such that they are able to properly investigate and handle offerings from each class, otherwise they usually confine their investments exclusively to one or the other.

The city affords the best field for very large loans;

for instance, a city business or office building representing an investment of hundreds of thousands of dollars is not unusual, and it is a compact proposition that can seldom be duplicated in salability, income or ease of management by any farm or ranch of equal value, although in smaller loan propositions, which, of course, make up the bulk of the business, farms show some points of superiority over city properties.

The average city loan also has certain advantages, one of which is that it can be made more expeditiously and more cheaply than can the average farm loan, the borrower's application is more apt to be filled out in a satisfactory manner, and when this is not the case, less time is usually required for its correction. It is less difficult in the case of city loans to obtain the services of disinterested appraisers and of competent abstractors and attorneys, and less time is consumed in perfecting faulty record titles and in assembling the persons necessary to the closing of loans.

Nor are the location and dimensions of city property often matters of any uncertainty, while it is sometimes impossible to determine the lines or the exact acreage of a farm until a survey of it has been made; nor is the inspection of city property apt to be difficult at any time, while the proper inspection of a farm is often delayed by a bad condition of the roads, inclement weather, a covering of snow or a very wet and muddy condition of the land itself.

City property also has the advantage of being less troublesome for the mortgagee to keep in touch with during the life of his loan and more convenient for him to handle in event of a foreclosure, its use at a

cash rental will be considered by a greater number of persons, and if offered for a quick sale it will usually command the attention of a larger number of buyers, thus insuring a more ready sale and a price which is nearer its then true value.

Interest and principal collections are not usually more difficult in one class than in the other, but if the payment of the principal is defaulted and the property comes into the possession of the mortgagee, he often finds himself unable to make the farm yield him any profit, for the reason, not always recognized, that the successful management of a farm requires the constant personal attention of a practical farmer, while city property may only require the occasional attention of an agent.

It is also true that the enhancement of the ground value, if it should occur in any section, is apt to be much greater in a growing city where the population is considerable in proportion to the available space in which it can conveniently live and transact its business, and where the land is divided into comparatively small portions, than could be the case with any farm properties under their conditions of larger areas and a sparser population.

On the other hand, properly made farm loans have an advantage in one feature that is of paramount importance; they have a certain stability of value not generally to be found in city loans; their actual value rests upon a more simple foundation, and for this reason is not likely to be seriously affected during the ordinary life time of a mortgage loan by the many causes which affect city values.

From the land come the products which are essential to life; the towns and cities do not produce them; they help to absorb and consume them; they collect, assort, exchange and distribute them; they change their form, combine them and make artificial products from them, which, while not essential to life, are more or less important to civilization; but the land, in the first place, produces them.

The value of city property therefore rests upon more complex conditions than does that of farms, and is subject to more changes and often to changes over which the owner has no control. The city, as a whole, may either gain or lose in its competition with other cities and in consequence its Real Estate values may rise or fall, its limits may be extended and new additions laid out and improved so as to overshadow the older sections, once desirable business or residence districts may be shifted to other localities to the detriment of the old, and the value of a certain piece of property, which may have been, in a great measure, due to the former improvement of surrounding or nearby properties, may suffer a depreciation due wholly to their depreciation, without any changes whatever having been made in that particular property; but no similar facts apply to farms, for practically all of the land that is suitable for agriculture has already been taken up and made into farms, each of which may be operated or improved in value as an independent unit in itself with little fear that it will ever suffer from any changes in its surroundings.

The farm is not so sensitive to many other causes which may bring unpopularity and consequent loss of

value to a city locality, nor to the over-valuation incident to "booms," for the measure of its value depends less upon an arbitrary public opinion; its perishable improvements also constitute a much smaller part of the security than they do in the case of city property, and in order to maintain their value it is not so necessary that they should be, or be kept, "up to date;" nor is the farm so liable to excessive taxation nor so likely to be charged with the cost of public improvements that may become a lien against it prior to the mortgage, which improvements are sometimes of little actual advantage to selling or income values.

A remarkable illustration of what may unexpectedly happen in this way is that of the middle western city which replaced its old Court House with a modern million dollar structure and soon found that the value of the nearby business property had depreciated more than fifty per cent. The explanation, however, was simple, for the neighborhood business had been supported by the trade of the farmers with whom the old Court House had been a popular meeting place, while the new one proved to be so unattractive to them that their trade soon drifted to other localities.

Although the *present* market value of city property may be more readily determined, a safer basis for estimating *loan* values is undoubtedly true of farms, for these combine the homes and business of the farmers, and while unfavorable seasons or lower prices for farm products may temporarily affect their earning power, with ordinary industry these earnings will seldom fall below an amount necessary for the support of the farmer and his family and the payment of his

taxes and interest; nor does the farm, even under unfavorable crop conditions, often fail to furnish some part of the supplies which are needed by a constantly increasing city population, and whatever its earning power may be, to some degree at least it is a dependable one, for farm products must always be in demand, although the enforced idleness of hard times may cause retrenchments sufficient to greatly lessen, if they do not temporarily destroy, the income value of city property.

No valid objections, however, can be urged against the properly selected security afforded by either farms or city properties, and, although there are differences of opinion as to their respective desirability, it may be said that while the city loan is no doubt the most convenient for the investor or lender to handle, a contention in favor of the superior stability of farm securities seems to be sustained by the experience of the larger investing companies who have acquired fewer farm than city properties by foreclosure of mortgages and have suffered less ultimate loss in that class of securities, notwithstanding the fact that the managers of such companies have usually had a less intimate knowledge of the requirements of a farm loan business than they may easily have had or have acquired concerning a city loan business.

IN THE CORN BELT

VI

MORTGAGE LOAN TERRITORY—GENERAL FEATURES

The willingness or unwillingness of investors to enter any particular loan field rests (except as it may be affected by a local optimism) upon such conservative opinions as may properly result from a knowledge of various relevant facts, few of which are conclusive in themselves but each one of which has its proper place and weight when taken in connection with the others in determining the main question.

It naturally follows, therefore, that different lenders and investors sometimes reach different conclusions as to the desirability of a certain territory, and while there is often ample ground for such differences of opinion even among experts, it is also true that investors are generally too much inclined to overvalue certain pet theories and either to accept or to reject any section of territory upon insufficient grounds, without waiting to assemble and digest all of the evidence concerning its advantages or disadvantages as a loan field.

If the investor is cautious he will be little inclined to lead the way into untried territory but neither should he follow the lead of others until he has carefully examined the field and convinced himself that the facts fully justify their decisions, for they may have either approved or rejected it on insufficient

grounds, and before reaching a decision it is important that he should know to what extent it has been approved by others, what rates and terms they grant therein, and whether or not the favorable view will release enough capital to care for its loan needs and its probable loan defaults. For to say the last word first concerning the desirability of any given territory for mortgage loan purposes, will be to say that the section should contain in itself, or be able to attract from outside sources, sufficient capital to absorb any defaulted loans which may have been originally made along sound and conservative lines, and this financial ability, whether it rests upon the use of home funds or of foreign capital, should be based upon local conditions which are not likely to lose their force and effect during the ordinary life of a loan.

Before investigating the special features of any given loan field certain general facts should be taken into account, and it is perhaps best to consider first the State laws affecting mortgage loans therein, for the reason that these laws affect all of a large and well defined territory, and if the investor rejects the territory upon the ground that the laws are objectionable, all other questions as to that particular State are thereby disposed of. If, on the other hand, he finds this feature to be unobjectionable and decides to enter the territory, he will already have acquired at least some small part of the knowledge necessary for the protection of his interests.

While the laws of the various States differ with respect to many matters which are of interest to investors, and although such laws often seem, at first sight,

to be unfavorable to the lender, they are seldom so objectionable as they appear to be to those who are unfamiliar with them, and the investor will find that loss or trouble may usually be easily avoided by the exercise of a proper degree of care.

These laws touch the mortgage loan business at many, and sometimes at unexpected points—some are radical, while others seem to be of comparatively slight importance, some extend to the contractual rights of the parties, and others affect modes of procedure only, but it is exceedingly important that all such laws should be fully understood, and that all of their requirements should be strictly complied with if any loans are made in that territory.

It is a somewhat singular fact that investors generally are also disposed to adopt State and County lines as defining the physical and moral as well as the legal limits of satisfactory or unsatisfactory territory, which rule does not seem to follow a practical view of the situation, for although State lines mark the boundaries wherein laws which may be regarded as being either favorable or unfavorable to the mortgage loan business are operative, and County lines mark the boundaries wherein satisfactory evidence of titles may be easy or difficult to obtain, and County as well as City limits mark the lines wherein taxation may be excessive, or law enforcement lax, and while in such matters as these the civil boundary becomes a part of the question at issue, it is hard to understand why any such arbitrary limits should be adopted in other matters, as they are more apt to be misleading

than helpful in determining the loan value of the territory.

It happens more often than otherwise that the territory under consideration, when taken as a whole, presents both attractive and unattractive physical and moral features, and the lines of demarcation between those portions which measure up to a satisfactory standard and those which fail to do so should be made along other lines than those which have been previously established for an entirely different purpose, —for instance, it may be wiser for an investor in farm loans to follow an exceptionally good section of land across a county line rather than to exclude that whole county (as is the practice of some investors) because in some sections its lands are of an inferior quality.

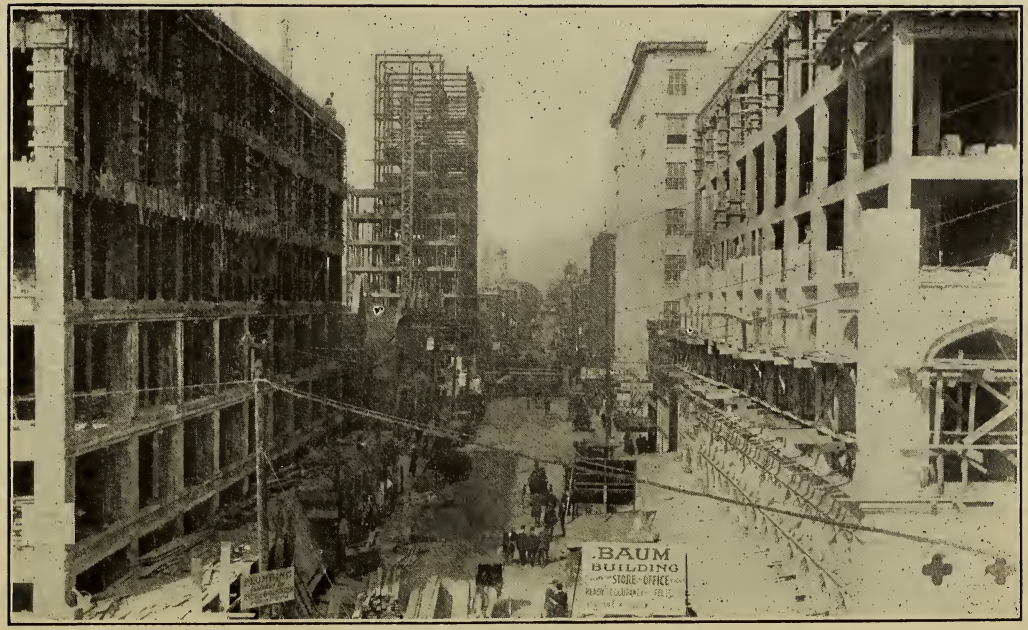
Another general feature which should be considered (more especially in the case of farm territory) is that of its altitude and climatic conditions, the annual amount and distribution of rainfall, the tendency to extremes of moisture or drouth, and the ability of the soil and usual crops of the section to resist the bad effects of such extremes; and if irrigated territory is considered, the sufficiency, dependability and quality of its water supply and the legal status and priority of its water-rights must be carefully investigated.

Another matter of importance is the general usefulness of the territory; that is to say, a very large proportion of it should be productive; and it is also a good feature for its earning power to be rather diverse than otherwise, or at least not confined within too narrow limits, for to be a good loan field it must have the ability upon occasion to care for its own needs at

least temporarily. It should also have various attractions which will tend to tempt outside capital; for example, a city which is almost wholly dependent upon a single industry, or a strictly "one crop" farming section cannot be said to be so attractive from a loan point of view as one which is supported to the same extent by the income derived from a variety of interests or products, any one of which might fail without seriously impairing the general prosperity.

If it is territory which is very largely dependent upon a single "money crop" the conditions surrounding this crop should be studied and the suitability of soil, climate, labor and other conditions for the profitable production of other crops, if this one should fail to remain profitable, should be considered.

It may also be stated that one of the most tempting as well as one of the most dangerous sections in which a mortgage loan business can be undertaken is territory which is experiencing a "boom," and that perhaps the most difficult task in selecting a loan field in new or developing territory is to distinguish between the evidences of a permanent and those of a temporary prosperity.



IN BOOM TIMES

VII

MORTGAGE LOAN TERRITORY—SPECIAL FEATURES

When considering the various matters which go to make up general conclusions as to the acceptability of loan territory it should not be expected that any one section, although satisfactory as a whole, will be found to be equally good in all of its parts or in all of its more desirable features. It should, however, be known to be generally good, and that its good features are based upon conditions that are not likely to change for the worse or to become relatively poorer in the general march of improvement, and it should also be known that a sufficient number of acceptable securities can probably be obtained therein to justify the investor in thoroughly investigating it and in keeping in close touch with it during the life of his loans, and experience will teach him that he can not do these things from railway trains nor by confining his inquiries to those persons whose interests require that he should reach certain conclusions, but that he can only obtain reliable information by more painstaking and intelligent methods.

Among the various local conditions which should be observed by him, some will of course show their character upon the surface while others will require a closer observation and more careful inquiries, but in either case he should learn the facts, and it is desirable

that they should show the territory to be reasonably well populated and to have comparatively few idle lands or vacant houses. Its labor conditions should be fairly good and its population in the main both prosperous and law-abiding; the ownership of its Real Estate should not incline to single holdings of large blocks but should be well distributed, it being a good feature if owner occupants are numerous and absentee landlords scarce, and if some portions of the territory are undeveloped, it should be known why this is true, and to what extent, if any, they may be irreclaimable.

The territory should be healthful and should have a good water supply and good drainage; it should not be especially liable to any disaster (such as flood damage) nor to any general failure of income; and all parts of it should be accessible by good streets or roads and have sufficient other transportation facilities to maintain the proper balance between its production and consumption at reasonable cost.

There is another matter that enters into loan values, although not so often considered, which may be called the social value of the territory. This does not contemplate on the one hand that it should have exceptionally high social advantages, nor on the other that it should barely avoid feuds or conditions of general immorality, but only that its general social tone should be wholesome and unobjectionable to the average person who might not otherwise consider it as a suitable location for his home.

If farm territory only is desired it should have in addition to the advantages heretofore enumerated, convenient schools and churches, fairly good and con-

venient local markets and shipping points, and reasonably good wagon roads over which its products may be transported.

It should also be known to what extent it may contain faults that make the actual value less than the apparent value and yet do not appear plainly upon the surface at all seasons, such as portions containing undesirable sub-soils or surface soils which for some reason are of inferior productivity although of the same color and general appearance as the lands not so affected.

If city loans only are desired, the size and location of the city must be considered and its proportionate area and population; the boundaries, natural or otherwise, that may limit or confine its growth to certain sections; its transportation facilities, labor conditions, power and fuel supply and such other competitive advantages as it may have over other nearby cities; its financial condition, tax rate, fire protection, and public improvements, and the general class and character of its population are all matters which should be taken into account.

From a city loan point of view the importance of well balanced conditions is greater than is the mere fact of a large population, and the larger size of a city is never conclusive evidence of its greater desirability as a loan field; on the contrary it has, especially if it is a growing city, at least one distinct disadvantage in the greater liability to shifting values of an important character. It should, of course, be large enough to insure competition among buyers when real property is offered for sale at a fair bargain,

but Real Estate in a moderate sized town, one, for instance, which is principally dependent upon its agricultural surroundings, may have as safe a loan value in such amounts as are justified by its surroundings, as may a city of several times its size which is dependent upon less stable conditions, except that loan values are perhaps in more danger in the smaller cities because of an extravagance in expenditures for development and management, for this is a relative matter and in the smaller cities such expenses are apt to be greater in proportion to the taxable wealth than they are in the larger ones, and this may add an extra burden of taxation to Real Estate which, added to the cost of insurance and upkeep, may materially reduce its loan value by reducing its net earning power.

It will be seen that the desirability of loan territory depends upon many different things, a number of which have been herein enumerated, but in considering them, two facts must be kept in mind; first, that while it is not necessary for the territory to greatly excel in any of these matters, a marked deficiency in any one of them is apt to be a serious objection; and second, that each feature should be measured at its true worth as modified by other existing conditions, the danger being that the investigator may allow his interest in some features to obscure the importance of others, or may cause him to overlook modifying conditions.

Many illustrations in support of this fact could be given; for example, the inspector may be so greatly impressed by the heavy pay-roll of a town's industries

that he will fail to give proper weight to the fact that these industries are very few in number and may not be permanent in location or successful in operation; or, when considering the importance to all parts of a farming section of convenient shipping points, he may lose sight of the fact that some crops can be transported much more cheaply than others, roughly speaking, the product of at least ten acres of lint cotton can be hauled on each trip to market by the same team that would only be able to haul the product of one acre of corn, and the money value of the load of cotton is usually even more than ten times that of the load of corn, and so the more comprehensive view shows the lack of numerous shipping points in one instance to be less objectionable than in the other.

VIII

METHODS OF SECURING MORTGAGE LOANS

THE question of what plan should be adopted in order to secure a satisfactory line of securities is one of considerable interest to the investor, and the answer depends somewhat upon the kind and amount of loans wanted and the territory from which they are to be drawn.

This matter is one of especial interest to the investor whose yearly investment fund is a large one, and who is anxious to secure business but does not care to make any very large individual loans; if he is very particular as to the character of the securities which he will accept he soon finds that he cannot confine his business to too limited an area, for the simple reason that it will not afford a sufficient outlet for his funds; what outlet it does afford being apt to be divided by the competition of other investors.

This, of course, is speaking of those cases where rather extensive operations are undertaken in medium sized loans and in the ordinary farm or combined farm and city loan business; because, if the investor confines his business entirely to city loans and operates only in a large city, and especially if he considers very large individual loans, he may in such cases maintain a close personal supervision over the placing of large sums; otherwise he will find it necessary to go into

sections which are too remote from his home territory for him to give a close personal attention to the details of the business.

The proper supervision of these details is quite important, often vitally so, and it can only be accomplished by the aid of a rather comprehensive knowledge of local matters. Therefore the investor finds that if he would maintain such supervision when he goes into new fields, he must have some sort of a local organization or connections therein upon which he can rely; that he must have some one on the ground whom he is willing to trust with both preliminary and detail work, some one who can keep in touch with the territory and the loans, and with whom the borrowers can conveniently deal; and that, otherwise, his business in that territory is apt to be either very light in volume, or unsatisfactory in character, or both.

Although loans which have been made in territory where the investor has no representative may seem at first to be very attractive ones, their isolated situation is liable to be a source of annoyance at least, if not of danger, for the investor cannot then pass intelligently upon such requests as are frequently made for partial releases, extensions of interest payments, privileges of making changes in buildings or of selling timber, etc., nor can he, without a re-examination of the property, pass intelligently upon the desirability of renewing the loan when it becomes due, for, in addition to other difficulties, the security may be neglected or despoiled with little chance of his attention being called to that fact. As a result the larger investors, seeking some more efficient and less ob-

jectionable plan, either establish local branches of their main organizations or form agency connections with local lenders.

Where such branch organizations are established it is usually for the purpose of procuring loans for investment purposes only, and of dealing as directly as possible with the borrowers. They are usually operated strictly upon a salary basis, no one connected with them having any interest in the success or failure of any application, and they no doubt afford the investor the best possible control over the details of his business and enable him to require all forms and practices to conform to his rules.

This plan is used with satisfaction and success by some of the more important investing companies, but ordinarily it may be said to be unsuited to the needs of those whose command of funds is at times limited, for it is open to the objection of not being elastic enough to meet the varying conditions of the business. To be effective and dependable such branches must be under very high class management and completely equipped for the work, and to be economical, they must not have periods of inaction while their overhead expenses continue; and this last requirement is practically impossible in organizations devoted exclusively to making such investments, for in any territory the demand for loans differs greatly and often unexpectedly at different times, and although such organizations may at all times be amply supplied with investment funds, they cannot well avoid periods of comparative idleness when there is a light demand.

It is a very common practice, therefore, for inves-

tors, instead of establishing branch organizations, to procure their loans under some form of contract from a local trust or loan company which has been organized, not only for the purpose of making Real Estate mortgages in a certain section, but also for the purpose of disposing of them to investors.

Such lending concerns operate in almost every part of the country and are better able to avoid the difficulties which attend branches organized for investment purposes only, for they work both the buying and selling ends of the business, and if sufficiently strong in finances or credit, they can make and carry loans during periods when their outlet may be temporarily dammed and the demand heavy. Nor is the occasional necessity of doing this apt to embarrass them, for they seldom depend altogether upon a single outlet for the sale of their securities, and as they also frequently engage in other kindred lines of business such as banking, trusteeships, Real Estate or insurance, these additional lines furnish partial employment for their loan employees and help to cover overhead expenses during dull loan seasons.

In most cases, this seems to be the most satisfactory source through which the investor can get his securities, and lending companies are very generally anxious to make loan connections with him for under normal conditions they are in the position of the dealer in merchandise who has less trouble in obtaining the goods to fill his shelves than he has in finding enough customers to make his business profitable.

On the other hand, there are times when the money which seeks this form of investment is so abundant,

either generally or in some particular section of the country, that the local lenders are in sharp competition for securities instead of funds, and at such times, lenders are less anxious for connections with conservative investors.

This very easy credit condition sometimes has the effect of inducing overvaluations, etc., but when it is extreme it may always be expected to be temporary, for its evils will in time cure themselves and skillful and conservative lenders are usually able to secure a satisfactory line of securities, if not at once, at least within a reasonable time.

When an investor adopts this plan of procuring loans through the agency of others, it is of a primary importance to him that he should make the right connections, for many, even among those who bear a high reputation for honesty and general business ability, are unsafe persons to intrust with the making of mortgage loans or from whom to buy them.

It is also really remarkable what attractive looking references and what plausible statements and arguments can be presented by those with whom no loan connections should be made and sometimes even by those who are thoroughly unscrupulous, irresponsible and incompetent.

It is true, however, that the less skillful and less conservative among them often have the least trouble in getting business, for they will take loans that more competent lenders refuse to consider, and they will also be found to be the most insistent when offering to sell them, and are always the ones who will offer the investor the greatest apparent bargains.

IX

IMPORTANCE OF PROPER LOCAL CONNECTIONS

A VERY large proportion of the great number of mortgage loans which are absorbed each year by investors are originally made for that market by local lenders, and as this seems to be the most available source of supply for the average investor the relations existing between the buyers and sellers of such securities should be entitled to a careful consideration.

(It should be kept in mind that distinctions are herein made for the purposes of this discussion, in the use of the words "investor" as one who procures mortgages for investment purposes, and "lender" as one who makes loans, acting either as the agent of the investor or with the purpose of offering the mortgages upon the market.)

Danger lies in the path of the investor who is indifferent or careless as to the medium through which he gets his securities, for if he is, he will be very sure at sometime to find himself connected with persons who, however exceptional they may be in other respects, are lacking in what may be called mortgage loan judgment.

They may, for example, be persons in whose minds one idea is apt to overshadow all others, and they may have false notions of the value of high interest rates, large commissions or other more indirect profits from loans.

They may be unduly aggressive, and in following the main object of getting the business away from their competitors, may be disposed to minimize the faults of the security and to overrate its good points.

They may be too optimistic and inclined to discount the future and accept promises of future betterments as accomplished facts, or to bolster up weak loans with personal indorsements or the stipulation for prepayments, which, if made, would make the loans good.

They may be too politic and allow the high social or political standing of the applicant or the chance of granted favors being reciprocated, or even considerations of personal friendship, to have weight in their loan decisions.

They may be too liberal in their interpretation of the ordinary loan rules, and what is most common, they may be too careless in the details of the work to fit the requirement of a businesslike investor.

The loan connections which are made with local lenders are matters of grave importance and although the investor may realize that there are certain undesirable possibilities in ill-advised connections, unless he is exceedingly careful he may easily overlook important points or be deceived by the fact of the lender's unquestionably high character and financial standing.

If he is neither indifferent nor incautious, however, and makes an intelligent preliminary investigation of the proposed agency, there is little danger that he will make any serious mistake, for his choice is seldom circumscribed in this particular and if the agency which is under consideration does not measure up to the

proper standard he can usually find other persons in that locality who are wholly competent and reliable and with whom he can form loan connections.

If both the investor and the lender are experienced in the business and familiar with the contemplated territory, they are very likely to agree on all matters except perhaps as to the degree of importance which should attach to certain points—for instance, while they may agree on all other points, one may hold the personal hazard to be very important as indicating the probable performance or non-performance of the loan contract, and the other may give it slight consideration as being no real part of the security.

It is very necessary that all such questions should be fully discussed and that the ideas of the investor and lender should be in harmony on all important matters; but prior to their discussion the investor should know that the lender has a practical knowledge of the conditions and values in all parts of the territory in which he operates and that he is both honest and careful.

He should also know that the lender is not only competent himself but that he maintains an efficient working force and does not trust to the work of "cheap" inspectors, attorneys and clerks and that he has a reputation among his borrowers for fair dealing and moderate charges, and among his competitors for understanding his business and taking none but good loans.

The lender's business should also be a prosperous one, and he should have a fair amount of financial responsibility; but in this matter of financial respon-

sibility the investor should weigh the facts very carefully, remembering that the reputation of possessing large means often carries with it an undeservedly good reputation in other matters, and that the lender may for that reason, and independently of the true facts, bear a reputation for possessing other qualifications which he does not possess, and which are of greater importance to the investor than is the single one of his having abundant funds.

While investigations along the above mentioned lines should be very thorough and while nothing should be accepted that is not found to conform to sound practice, the investor should not lose sight of the fact that the fully competent lender will understand the peculiar needs of his own organization, his territory and his borrowers better than they are likely to be understood by the investor; and unless he is willing to recognize this fact there will be many occasions for needless friction in their business relations, to the disadvantage of both. For instance, the investor who makes loans directly to borrowers will follow certain rules and practice in the matter and although these may be suited to the class of property and the territory where they are applied, they may not be well suited to other conditions. Nevertheless he may insist that they shall be followed by the lender or correspondent who represents him in another section where they are not applicable—as did the northern investor in southern securities when he insisted that each house must have a good cellar.

Mistakes of this kind are not likely to occur, however, if the investor is able to go upon the ground

and to become personally acquainted with the conditions before entering any given field, and it is very desirable that he should do this if possible, for it may not only reveal facts which otherwise might be unthought of by him but it will afford him the opportunity for understanding any peculiar requirements of the territory which should be taken into account in his dealings with the lender, and an examination of a number of securities that have been accepted by the lender will indicate more clearly than would any other test the measure of that lender's knowledge of the loan business and his conservatism and the character and efficiency of his organization and equipment.

X

BLANK APPLICATION AND REPORT FORMS

The equipment of the lender should of course include all of the necessary blank forms, and these should be very carefully prepared; each form should be submitted to a competent attorney of the State in which loans are to be made, and his opinion, of course, should be regarded as sufficient and final concerning all such blanks as deeds of trust, mortgages, notes, bonds, affidavits, disclaimers, etc., the proper form and substance of which are necessary to the legality of loan transactions.

There are also certain preliminary papers which are of importance, such as applications, inspection reports and agency contracts. The form of these blanks should also be approved by the attorney but they should not be adopted by the lender until they have also been passed upon by a practical loan man who has had experience in the territory and with the class of securities under consideration.

No loans upon Real Estate should be considered unless they are based upon written applications and reports but the forms for these are often carelessly adopted in the belief that such things are of a secondary importance inasmuch as their use is not essential to the legality of the loans, which conclusion is only

true in the same sense that it is true that an abstract of title is not essential; and there is quite as little reason for indifference or carelessness in regard to one as to the other, for the facts in each matter are really of vital importance and while the abstract purports to show them as to the title, the application, in connection with the inspector's report, is expected to show them as to the physical and moral features of the security.

The application, when accepted, forms the basis of the loan contract, and it is important that this blank should provide for statements and answers which are simple and concise as well as comprehensive; it should provide for all necessary statements and for no unnecessary ones; and it should also be suited to the territory and to the general class of business for which it is intended to be used.

Certain facts must be shown in a farm application which would not be at all pertinent to a city application and vice versa, nor do the requirements for the same kinds of property always conform in these respects when the properties are located in different sections; for instance, those facts relating to irrigation, or homestead rights, or diversity of crops, etc., which are necessary to be known in one section may be wholly irrelevant or of very minor importance in another. It should not be attempted, then, to make a single blank form cover too wide a field.

Almost any applicant will overestimate the merits of his offering, and will seek to avoid any admission of its faults, and if the application blank provides for statements or answers where the facts can only be

estimated, such estimates will seldom be found to be dependable; and if it provides for answers which will not be insisted upon by the lender, or contains questions which may be confusing to the applicant or otherwise hard for him to answer correctly, or if it provides for information which is not fully applicable to the matter in hand, a large proportion of the applications submitted will be imperfectly filled out, not only as to these, but also as to other matters. The blank should, therefore, be one which the lender can consistently insist shall be fully filled out before it will receive his consideration.

The application should state the amount, the time, the rate of interest, and the terms of the proposed loan; it should give a legal description of the property which would be sufficient to enable a surveyor to positively locate and plat it and should also contain a statement of the location, general characteristics, improvements, use and occupancy of the property which would be sufficient to enable an inspector who is not a surveyor to positively locate and identify it.

It should give a statement of the main facts which go to show the present value and earning power of the property, and a brief statement showing the kind and present condition of the title under which the applicant claims ownership and of any claims or matters which might become claims against it.

It should contain a brief personal and financial statement giving the applicant's age, business and address, and if married, the name and age of his wife, and an approximate estimate of his holdings and his indebtedness, and should also state the purpose for

which the money is to be borrowed; and it should give a short statement covering any agreements made as to the furnishing of abstracts, the payment of taxes and insurance and of any expenses that may be incurred in making and caring for the loan.

The application should be made by the owner of the property and signed by him in person; and if he is required to make affidavit as to the truth of his statements it will often afford the lender some protection against careless statements or attempted frauds.

The inspector's report blank is not subject to the same requirements as is the application blank in those matters which are a part of the loan contract, nor to the same requirements as to simplicity and brevity, but it is also a very important loan paper. Like the application blank it should be suited to the territory and class of property for which it is to be used, but it may and should embody reports on any or all other matters which will assist the lender in reaching proper conclusions. Its most vital part is perhaps its showing that the property has been visited and examined by the inspector and has been positively identified by him as that offered in the application, for, unless this is the fact, any such report is far worse than useless. (In this connection it may be remarked that a photograph of city property, or a plat of farm property, is always of value.)

The inspection report should go to the verification or correction of the statements made by the applicant, and should go much further than does the application into those details which, taken in the aggregate, indicate the general desirability of the security, its de-

pendable income capacity, its ability to withstand mismanagement or neglect, its availability for other purposes than its present uses, and its salability under any adverse conditions that are likely to arise during the life of the loan.

Any physical, legal, or business conditions which are peculiar to the section should also be shown in their relation to the property under consideration; for instance, the liability of overflows or erosions, unusual homestead and exemption laws, irrigation matters, one crop conditions, etc. It should show the general moral hazard as indicated by the surrounding conditions of prosperity, and also show the results of an investigation of the personal hazard; it should show by whom the property is occupied and the nature of his claim of right to such occupancy, and it should show in detail and in the aggregate, the inspector's opinion of the present cash market value of the property, and contain his definite recommendation as to the amount which should be loaned upon it.

Certain facts in addition to those relating to the contract itself are always necessary to be first shown by the application in order that the lender may be able to judge in advance of an inspection whether or not it may be worth while to make one, but as the applicant is always an interested party it is a safe rule for the lender to depend so far as possible upon an expert and unbiased inspection report covering all of the material facts, and especially all such facts as might be colorable by the applicant's self interest.

XI

LOCAL LENDING AGENCIES

The lender who deals only in city loans usually obtains both his borrowers and his investors through the general publicity which he gives his business, his financial standing furnishes him with one of his principal arguments, and, in a way, his relations with both borrowers and investors are on a more impersonal basis than is the case in a farm loan business.

On the other hand, the lender who deals in farm securities usually depends more upon the efforts of his sub-agents to secure his business, his borrowers are apt to be less impressed by his financial condition than they are by his reputation for fair dealing, and while his business relations are usually with fewer investors they are more likely to be subject to the terms of a specific contract which anticipates a continuation of the business.

The business understanding between the investor and the lender is in some cases simply a working agreement and in others it takes the form of a written contract. In any case its provisions follow along certain lines which, in the main, are very similar to one another, although they sometimes differ as to details, but it is of great importance that in every case it should be comprehensive and clearly understood by both parties.

Ordinarily the investor agrees, at least tentatively, that he will make investments from time to time of estimated approximate sums in certain designated territory, in securities of a stipulated class and character, at a stated rate of interest and on certain specified terms of contract with the borrower, and that he will recognize the lender as his local correspondent in such territory; and the lender on his part agrees that, so far as he is able to do so, he will furnish the investor with the desired amount of securities, which shall conform in all respects to his requirements.

The amount of securities to be furnished by the lender, and of the funds to be supplied him by the investor can only be estimated at the outset, for the lender can have no real control over the demand for funds in his territory, and the investor may easily find it difficult to adjust his available capital to any unusual or unexpected requirements.

The lender usually wishes to make as definite an arrangement as possible with an investor who can furnish with reasonable regularity an amount of funds for investment at an interest rate and upon terms all of which will enable the lender to furnish the desired securities with profit to himself; but in addition to making connections which give promise of proving satisfactory in this respect, it is quite important to the lender that they should be such as will aid him in maintaining his organization, and keeping in as close touch as possible with his borrowers in order that he may profit by their future business.

To the end that he may accomplish this purpose and at the same time offer inducements to the investor,

the lender usually agrees that, until any loan is paid, he will cause the property to be kept insured in accordance with the terms of the mortgage or deed of trust, that he will see to the payment of all taxes and assessments that may become a lien against the property, and that he will attend to the collection and remittance of interest to the investor, all without any charge for such services.

He will guarantee the title to the property to be a marketable one (there being but few perfect titles), and that the mortgage or deed of trust is a first lien against it, and will also guarantee that if the property is re-examined by the investor within a certain stipulated time, it will be found to be satisfactory to him, and that if found to be unsatisfactory, the loan will be at once taken up and repayment made.

The attempt is sometimes made to cover this point by a guarantee that upon examination the property will be found "to be as represented" but this form is objectionable, as it opens the door for misunderstandings and discussions that are based upon difference of opinion and judgment only.

In these agreements a stated time is usually allowed the investor for making re-inspections of the securities he purchases, and he should insist upon the time allowed being ample for the purpose, and should never neglect to have such inspections made.

It is also very important that the person who does this work should be expert in that line, not only that he may do justice to the interests of the investor, but that he may not cause an injustice to be done to the lender by requiring him to take up loans which should

have been approved. Nor is this the only reason, for if he is incompetent he will never be able to conceal that fact from the lender, whose poor opinion of the inspector's ability to protect the interests of his principal may tempt him to seek advantage to himself from that fact.

In selling his mortgages the lender sometimes makes a broader guarantee than the one above indicated, frequently he does not specify any time limit within which the re-examinations shall be made and sometimes even goes to the extent of indorsing the notes of the borrower.

The danger of loss to him by reason of such broad guarantees is small provided all of his securities have been wisely and carefully selected, and it may be made yet smaller if, by its terms, he is allowed a reasonable time after any foreclosure of a loan before it becomes effective. But any such guarantee is nevertheless of doubtful value, for it unavoidably creates a contingent liability against the maker which, although small at first, may develop a dangerous growth unless all of his loans are very judiciously made, for each loan that is made adds its new liability, and each year that passes brings changes in the old securities which may add more, until, if his business is considerable, his guarantee becomes practically worthless.

It is true that if the lender is naturally conservative and cautious the making of a broad guarantee may incline him to be more so and cause him to estimate with greater care the possibility of any future depreciation in values, and therein lies the only advantage it gives to the investor; for if the lender is

not naturally conservative and cautious, the making of such guarantee will hardly make him more so. Instead, he will be inclined, despite any guarantee which he may make, to ignore a danger of loss that seems to him to be remote, and he may be tempted to use the guarantee to strengthen otherwise weak loans.

It is also true that the investor may be disposed to lean upon a broad guarantee as being at least some part of his security, and that he may either neglect to make careful re-examinations of the securities, or to accept those which he would otherwise decline as not measuring up to his standard, and thus rest to some extent upon a guarantee that might easily prove to be a mere rope of sand.

XII

CONTRACT BETWEEN INVESTORS AND LENDERS

THERE are several other matters pertaining to the business relations of investors and lenders which, whether or not they are made parts of a specific written contract, should be clearly understood by the interested parties before any loan connections are made by them.

It should be understood, for instance, that all forms used by the lender shall be satisfactory to the investor and that the forms of notes and mortgages or deeds of trust shall accord with the approved legal forms of the State in which they are used, and it should be stipulated that no loans shall be made, either directly or indirectly, to any persons having an interest in the agency contract.

It should also be understood and agreed that in all matters, and especially in those involving the payment of commissions and expenses, the treatment of the borrower by the lender shall be fair and reasonable, for the reason that the satisfied borrower adds to, and the dissatisfied one detracts from, the desirability of the security.

Nor should the investor on his part ever attempt to drive a hard bargain with the lender, for if he should induce him to give more than he can afford, he may expect that the evil consequences will, to some extent, re-act upon his own interests.

The lender who wishes to make a loan connection is, in fact, always inclined to offer all that he can reasonably afford to give; indeed, the competition of others who desire the connections is apt to make it necessary for him to do so, but if he deals only in the best class of securities he cannot offer as high a rate of interest as can the lender who deals in more doubtful loans; if his charges against the borrower are reasonable ones he cannot offer the amount of brokerage that he otherwise might offer; if he is wholly responsible financially he will scarcely make the sweeping and unlimited guarantees which a more irresponsible person would make, and, all in all, the measure of his willingness to give more than others are willing to give is often, if not always, inversely the measure of the desirability of his connection.

The investor is usually a city man and if his business is confined to city loans he will deal with matters upon which he is likely to be well posted, but the farm loan business has peculiarities with which he is not so apt to be thoroughly familiar, and he will perhaps, in such cases, frequently find himself hampered by his lack of knowledge concerning the field conditions.

It is quite important, however, that he should understand them; he should understand, for instance, that the lender who covers a farm loan field finds it necessary to have sources through which he may receive applications in proper form from the various neighborhoods or counties in which he operates, and through which he can obtain at first hand reliable information as to the loan offerings.

He should understand that the personal acquaint-

ance of the prospective borrower with a person who has access to loan funds, and in whose reputation for fair dealing he has confidence, plays an important part in the initial step in almost every farm loan transaction, for the borrower will almost invariably go to such a person in preference to going to others.

Other considerations also enter into the situation; for instance, the applicant himself is seldom expert in filling an application blank properly, and is apt to overstate the facts which are favorable to him and to ignore or minimize those which are unfavorable; there are also many persons who, if allowed to do so, will present applications which are not worthy of any consideration.

It is very necessary then that the lender should have local representatives or sub-agents who are active, well known and respected, in order that at least a fair share of the best business may be obtained, and it is also important that they should be competent, careful and locally well informed in order that bad business may, as far as possible, be weeded out at its source.

The comparatively limited area which constitutes an ordinary farm loan field is therefore organized by the lender, into what may be called neighborhood or county units, in each of which he arranges with a local bank or an attorney or a Real Estate dealer to act for him upon a commission basis in procuring applications and in doing such other preliminary work as may be required.

The proper selection, training and oversight of these sub-agents is attended with much work and

many difficulties, and those among them who are able to use good loan judgment and are persons who may be depended upon to present all matters fully and honestly are very valuable assets to the organization of any lender as well as to the investors with whom he may be associated.

The investor may, when necessary, go upon the market and purchase the needed securities that his regular loan correspondents have failed to furnish, although it is less satisfactory to do this than it is to get them through tried and proved sources, but, on the other hand, the lender whose outlet connection fails, is placed in a much more serious situation, for relief is more difficult to obtain and unless it is obtained promptly the disturbance to his business is greater.

He cannot, of course, hope to retain the services of his sub-agents unless he is able to give their offerings reasonably prompt attention and for this reason he is little inclined to depend wholly upon connections which are barely sufficient to meet his average needs, and his usual practice is to guard this point by providing for more than one outlet for his securities.

He at least endeavors to secure some minor connections which upon occasion might be developed or which might be made to serve temporarily to bridge over the loss of his principal outlet if that loss should occur.

The fact of a lender having agency arrangements for the same territory with more than one investor is not necessarily harmful to the interests of any of them, but this situation should be watched, for it con-

tains possibilities for the opportunist and might be made to favor one investor as against another.

No lender, for example, may hope to make any great number of loans each of which will measure up to an equal standard of excellence, and it will be but natural for him to present his best offerings to the investor whose business he values the most highly and his less desirable ones to those whose business is not so important to him or who are disposed to drive hard bargains in interest rates, expenses or discounts.

It may be urged in answer to this that if the securities are safe that that is all the investor need ask, for in no case could he collect more than was owing to him and that their re-inspection should cover this point; theoretically this answer is sufficient but the practical loan man knows that there is a very real difference in desirability even among loans that are not affirmatively bad, and that such difference often depends upon facts which could easily be concealed from the most expert inspector.

The investor should also know the form and nature of the lender's profits; the borrower, as a matter of course, pays all of the expenses and profits incident to his loan transaction; the sum which is thus charged against him being calculated to cover the necessary expenses of his loan, with a reasonable amount added as his share of the general expenses and just profits of the lender. The plan which is adopted for the payment of these charges is largely governed by local usage; sometimes the payment is in the form of a cash commission, sometimes in an agreed sum secured by a second mortgage and sometimes it is covered by

an excess of interest above the rate at which the loan is made for the investor.

When a cash commission is paid by the borrower the interest of the lender in the loan is to some degree ended, and for this reason there would seem to be an advantage to the investor in either of the other plans, for then the lender's interest continues for a time at least; but whatever plan is followed in this matter, the main interest of the investor is in the reasonableness of the lender's charges.

In considering this feature the investor should remember that the legitimate overhead expenses incident to making loans in some sections and in some classes of securities are much greater than in others and he should be very sure that the lender's mind is not clouded by a greed that will incline him to avoid any proper expenses in order to increase his own profits, or to impose any harsh terms upon the borrower to that end.

XIII

BUSINESS RELATIONS OF INVESTORS AND LENDERS

It is desirable in the interest of the clear understandings and just actions which will tend to make their relations pleasant as well as profitable that the investor and lender should each be as well informed as possible of conditions "at the other end of the line," for it is one of those connections in which each party may advance and protect his own interests by the consideration which he gives to the interests of the other.

The lender therefore should endeavor to maintain a dependable organization in which no "slipshod" work is permitted; he should endeavor to obtain and keep a satisfactory and satisfied line of borrowers who will realize the importance of complying strictly with the terms of their loan contracts; and he should endeavor to take without any unreasonable delay such loans as may prove to be desirable. It is not intended to say, however, that these matters should ever be hurried, for no more dangerous practice could be followed, but only to say that there should not be any unnecessary delay, for this would be manifestly unfair to the applicant whose need for prompt action may be urgent and who agrees to accept the loan if it is granted and thus bars himself, pending its acceptance or rejection, from securing it from another source.

When offering loans to the investor the lender should confine himself to the class and character of securities which the investor has indicated as being satisfactory to him, and should refrain from presenting such as would for any reason be exceptions to the agreed class although he may consider them to be good loans, because if the investor has defined certain lines, he usually wishes to stay within their limits and does not care to consider "exceptions."

He should also appreciate the fact that the investor desires his investments to be as permanent as possible and that he will not be pleased with propositions to disturb them by partial releases, unauthorized repayments, etc., after the minds of the parties have met upon the terms of the contract and the loan has been closed.

He should know that if he sends incomplete and imperfect applications and reports to the investor, in which there are obvious mistakes or mis-statements or unfilled blanks or the "illuminating" answers given that the applicant "don't know" or "can't remember," that the case is not advanced but that this practice is, at best, only a source of annoyance and delay, and that carelessness on his part even in comparatively unimportant matters may cause the investor to doubt his entire reliability in more important ones.

He should keep the investor informed of any changing conditions that may effect his securities, and if he makes advancements to borrowers for the purpose of paying taxes, insurance or interest, he should fully inform the investor of that fact.

It will also be seen that in furtherance of satisfac-

tory relations, the investor on his part should maintain as nearly as possible a definite and dependable assignment of funds to the lender and grant him such a rate and terms as will enable him to do a profitable business in the best class of securities and to handle all of the details of the work with the help of the most expert assistants.

Unless the lender can do these things, his organization will soon be disturbed and will often suffer damage in places where it will be difficult or impossible to restore it; his most valuable connections may be lost to him and the best offerings go elsewhere, and, in endeavoring to hold on to his own profits, he may attempt to do so by cutting down the proper class of work in investigating and closing his loans or by dealing in a cheaper class of securities.

The volume of business which is done through such connections must also rest largely upon the good faith of each party to the contract in working for the interests of the connection, and, to a certain extent, changing conditions of supply and demand may be foreseen and provided against by them.

Either condition of a heavy or a light demand for money is indeed apt to be a cause for an opposite condition to exist in its supply; a period of heavy borrowing diminishing the supply and a period of repayments increasing it, with the compensating fact, however, that a strong demand in any section has a tendency to attract capital and that a weak demand inclines it to seek investment elsewhere.

It will be noted in studying the probabilities of future demands and future repayments that the im-

mediate effect of unusual or increased earnings from Real Estate in any section is that of the repayment of mortgage loans, and that, if such prosperity continues and seems to become stable, there is a secondary effect of increased borrowing for the purposes of investment and development.

On the other hand, if the productivity of the Real Estate should be lessened, the first effect may be seen in an increased demand for funds with which to adjust unexpected losses, but if the bad conditions should continue they will not only have the effect of discouraging investments and development, but will cause owners to relieve themselves, so far as they are able to do so, from the burden of the mortgage debts which they may owe, and so, as has been said elsewhere, there is a smaller demand from desirable borrowers during hard times than there is during good times.

The probabilities for future business may thus be anticipated to a certain extent, and while its volume cannot be definitely known, intelligent co-operation of the investor and lender will often serve to prevent greatly mistaken estimates in this matter as well as mistakes in other things.

To those who may think that undue emphasis has been given in these comments to the dangers of ill-considered loan connections it may be said that, while perhaps a very large majority of the persons who are engaged in the business are both competent and honest, there are at least some who are neither, and that it is a very easy matter for the legal responsibility of the principal for the acts of his agent to be

established. It may also be said that these various matters have been mentioned with some particularity for the primary reason that false views respecting them will breed errors of policies and practices that may lessen the loan values of the securities taken, and for the main reason that in a legitimate mortgage loan business there is no room for losses.

XIV

CONTRACTS WITH BORROWERS—AMOUNT

THERE are a number of things, such as the amount of the loan, the time it is to run, the rate of interest which is to be paid and its other terms and conditions, that are necessarily matters of contract between the lender and the borrower; and these things should be definitely determined and agreed upon before any specific investigation of the security, title or personal hazard is entered into.

The lender is theoretically in a position (within the laws as to usury) to dictate his requirements in these matters, but in practice he will find that his policy, to be successful, must be governed and modified by the various loan conditions presented by different classes of securities, different conditions of territory, different State laws, and different loan competition.

He will also find that the policy which he adopts as to one matter will often indicate the policy that must be adopted in another; for instance, if he demands an unusually wide margin of security he will find that he must be more liberal as to time and terms and interest rates; if he demands the maximum interest rates he will find that he can not be so exacting in other matters; and if he adopts any policy which fails to recognize this principle he will simply fail to get a desirable line of offerings.

One of the first and principal provisions of the loan contract relates to the amount which shall be loaned upon the security offered, and the principal rule adopted by the lender to cover this point usually fixes a certain per cent. of the market value of the property as the maximum loan limit; sometimes the lender also fixes an arbitrary loan limit which he applies to any security or to certain classes of property, independently of the market value.

The rule limiting a loan to an amount not exceeding a certain percentage of the market value of the security, presupposes such value to have been accurately determined and to possess a reasonable stability. The value of the rule depends absolutely upon this foundation and when too optimistic views of these matters are accepted, which is often the case when lenders are either inexperienced or over-anxious to obtain business, the mistake will be a fruitful cause of an unsatisfactory experience in the mortgage loan business.

If this danger is provided against, however, the question is then fairly upon the percentage of the market value which is safe as a basis for loans, and it may be said as to this that the per cent. should be small enough to leave a margin of value in the property sufficient to cover the costs of a possible foreclosure and sale and to provide for the accumulation of interest, taxes, insurance and other charges in event of their payment being defaulted either before foreclosure or during any period of redemption which may be allowed by law. It must also be sufficient to cover any depreciation in the market value of the property which is likely to occur during the life of the loan,

or which it might suffer because of the condition of an enforced sale.

This limit of safety under the percentage rule is variously estimated by different lenders to be from forty per cent. of the value of the property by the more conservative ones, to sixty per cent. by the more liberal ones; but as a forty per cent. rule practically shuts out a great deal of good business and sixty per cent. sometimes leaves too narrow a margin of value above the loan, conservative lenders very generally agree upon fifty per cent. as being more satisfactory, although, as the perishable improvements are more apt to depreciate, a rule limiting loans to fifty per cent. of the value of the ground, and forty per cent. of the value of the improvements, is adopted by some and is perhaps a safer one.

This, of course, refers to ordinary loans which are subject to the ordinary conditions in other matters. If the loan is made for an unusually long time, however, the lender is apt to be more conservative as to the amount, while if it is to be made on an amortization plan he may (perhaps with less reason) be inclined to be more liberal.

It is a common practice also for lenders and investors to adopt arbitrary rules as to the maximum and the minimum amounts which they will consider in single cases. They ordinarily feel that it is not a good business policy to place any very large part of their funds in a single loan, and so they follow the homely philosophy of "not putting too many eggs in one basket." On the other hand they realize that the time and money necessarily expended in making and caring

for a small loan is almost, if not quite, as great as it is for a larger one, and that proportionately it is always greater, and there is, therefore, a minimum limit below which they cannot afford to go.

The policy which is followed in these matters, however, often depends upon circumstances; in some cases it depends upon the amount of loan funds which the lender may control, and in others upon the ability of his organization to care for smaller details with economy.

The rules above mentioned are often thought to cover all that is necessary in defining the proper loan limits, but there are cases of rather frequent occurrence where the application of these rules will fail to fully protect the interests of the lender; for example, the dependable average net income producing capacity of the property is not always a controlling factor in establishing its market value, as is often the case with an expensive residence or a farm which is supposed to have a "proximity" value, and if its present market value is based upon some less stable foundation than that of its dependable income, that value may not be maintained during the life of the loan.

The safety of the investor or lender, then, often calls for an arbitrary rule that loans in excess of certain fixed sums shall not be made on certain classes of property, notwithstanding the fact that their present market value is ample; and such a rule is usually applied on an acreage basis to farm loans and is even more arbitrarily applied to detached dwelling house city loans.

Such rules are wise and useful only when their

terms have been very carefully considered in connection with the circumstances which may affect the generality of cases, for it is very easy to make such mistakes as that of establishing too low a limit and thus shutting out the better offerings, or that of adopting too high a limit and thus inducing the consideration of offerings at valuations which are based upon temporary high prices or upon the cost of the property rather than upon its average earnings or the competition among buyers which may be expected if it should be offered for sale.

None of these rules, however, is intended to fix the amount which, under a given set of facts, is always a safe or desirable one to be loaned; but on the other hand each is intended to fix a limit above which, in the average case, a loan will *not* be safe and desirable, which is quite a different thing.

It is the rule of some investors (especially in the matter of farm loans) that only the producing parts of the property shall be considered and others designate the proportion which must show a present income value.

These rules, however, fail to recognize the fact that the proportional relationship between income values and market values is not always the same, and that while the income from the producing parts of an offering may be sufficient to justify a loan of a certain amount, the market value of this part alone (which is acceptable under such rule) may fail to do so, or, while the market value of the entire property may be ample, the net income from the producing portion of it may be so reduced as to be insufficient if it is

charged with the cost of maintenance of the whole property.

A more practical rule therefore would seem to be that the property as a whole should be subjected to each test, for a portion of its actual market value is often based upon the potential income value of its undeveloped parts and is entitled to consideration provided that the developed income value is sufficient to warrant the loan.

Although loan offerings may technically measure up to the required standard, they will often be found to contain certain features that are not wholly unobjectionable; some doubt may be felt as to the continued popularity of the neighborhood or some defect may exist which might in time grow to be a more serious one, and when such shortcomings do not seem to be of sufficient importance to warrant the rejection of the loan, and at worst, can only operate to reduce and not to destroy the loan value, they may be properly offset by reducing the amount loaned in proportion to the importance of the fault. But cures for such defects should not be sought through the unwise remedies sometimes resorted to—of the borrower agreeing to make future reductions in his loan, or of the lender reviewing the fact from a more optimistic point of view than he at first thought to be right and then making more liberal decisions.

XV

CONTRACTS AS TO TIME OF MATURITY

TIME is also a necessary feature of all loan contracts, and the investor or lender will find, as in the rule governing the amount loaned, that his own wishes cannot always arbitrarily determine the policy which he adopts; he should, of course, consult his own interests, but in doing so he must also give consideration to certain loan conditions with which he will be confronted.

All Real Estate mortgages for whatever time they may be drawn are properly classed as "long time" loans, and they are seldom made for a shorter period than three years nor for a longer one than ten years; the usual term being either five, seven or ten years, shorter terms than three years being favored in localities and on securities where there is some doubt as to the permanency of values, and the ten year terms in sections and on properties about which no such doubt exists.

The question of what is the most desirable length of time for which mortgages should run is also somewhat involved with the question of their terms, for while their full amount is sometimes made to run for the full time, the contract is often modified by required or privileged prepayment conditions.

The cost of a loan to the borrower is also a matter

of interest to the lender when considering the time for which it is to be drawn, for although neither of these things can be expected to control the other, there is a relation between them which, in justice to the borrower, should be recognized within the bounds of safety.

The actual time consumed and expense incurred may, for instance, be as great or even greater in the case of a small loan as it is in that of a larger one, but as the service required in the latter case is usually the more valuable it is customary for this charge to be made upon a percentage basis with a compensating rule that a larger percentage shall be charged on the smaller transactions, but however the expense may be calculated and whatever form its payment may take, it adds its sum to the cost of the loan and for all practical purposes may be treated as a part of the interest paid by the borrower.

It is very evident then that, figured upon this basis, the expense charge grows proportionately smaller with each year that is added to the term of the loan and that if the term is too short such a charge may easily be heavier than would seem to be reasonable. For example, if the cost of procuring a five thousand dollar loan should be one hundred dollars it would add two per cent. to the interest if the term was one year, while it would only add one-fifth of one per cent. per annum to the interest on a ten year loan; and if, as is the case in some sections, the loans are small and the cost of doing business is great, the percentage charge on short term loans will necessarily be such a heavy one that they will be burdened

beyond reason, the only remedies being longer terms or the foolish one of cheapened investigations.

As a general rule the borrower is anxious that his loan shall be written for a long period, provided he is given liberal prepayment privileges, and as the investor naturally wishes to avoid the trouble and loss incident to the frequent reinvestment of his funds he is nearly always willing to concede as long a term as is consistent with the safety of his interests.

In other words, the borrower realizes that he may need the use of at least a part of the money for a comparatively long time and does not wish to place himself in a position where he may be compelled to repay the full amount before a time when he is sure that it will be convenient for him to do so, but he does want a contract that will allow him to repay it in part or in whole before maturity if such repayment becomes practicable and desirable to him; and it has become a common practice of investors to consent to longer terms and to grant some form of such options.

On the other hand, it is said with reason by those who do not favor long terms that expert judges of loan values are usually able to foresee with reasonable certainty the probability or improbability of any occurrence in the near future which may affect the value of the security, but that as the time is extended their ability to forecast its events rapidly diminishes and soon becomes negligible, and if long terms are granted there is ordinarily a greater danger that the securities may become impaired before the maturity of the loans than is the case if they are made for shorter terms.

It is also said that while the effect of ordinary changes in the physical surroundings of property is not apt to be immediate and if the property itself is in a good condition at the time the loan is made, it will usually be able to withstand neglect or mismanagement for a reasonable length of time without serious loss. It is also true that favorable hazards, especially personal hazards, may be changed at any time, and that when any unfavorable conditions do come into existence and reach a stage where their effect becomes marked, the depreciation in the loan value from that time on is nearly always a very rapid one.

And again, it is urged that the long term contract binds the investor, while under the common plan of granting prepayment privileges it does not so bind the borrower, who, if prevailing interest rates should be lowered, can take advantage under such option to secure a lower rate by refunding his loan, but if interest rates should advance the investor has no corresponding opportunity to profit by that fact.

These points seem to be well taken, and therefore, while investors may desire, they very generally fear long terms, and stipulations for *required* prepayments and amortization plans are sometimes used for the purpose of extending the time for the final payment of the whole loan and at the same time modifying the length of its term as applied to its full amount, in the belief that this plan will harmonize the interests at stake as shown by the various arguments for and against the policy of granting either very long or very short loan terms.

Theoretically, this amortization plan is a very attractive one, for with each payment that is made upon the principal the security is bettered, and for a certain class of loans, especially loans on city property yielding a fixed and dependable income sufficient to meet the required payments, such plans are often found to be not only practical but also very desirable; but for certain other classes of securities, especially the ordinary farm loans, they are frequently either impractical or undesirable, and in all cases the plan contains one very dangerous feature in the fact that it inclines the lender to take a too optimistic view of the situation.

It is the proper habit of the investor's or lender's mind to look into the future and to consider his security from that angle, and if the contract provides a promise for its betterment in the future he will almost unconsciously give a certain weight to that feature, when in fact it is only a promise and not entitled to any consideration whatever as bettering the security at the time when the loan is made.

Although there are exceptional cases when long terms with no required prepayments are unobjectionable because of a large margin of security in stable land values, and a good rate of interest without unduly liberal prepayment privilege, a majority of investors seem to have agreed that in the ordinary city and farm loan business the weight of the argument is against either extreme, and that a term of either five or seven years is the most generally satisfactory one, five years being preferred by the more conservative who very generally feel that if ten year terms are

granted, a substantial repayment should be required at the end of the five year period as this will afford the investor an opportunity to protect himself in a measure against the evils that sometimes attend long terms, and will be long enough to answer the more serious objections to very short ones.

When some such plan as the above is adopted the investor is afforded a needed opportunity to review the record of the loan, to re-examine the property, and to call in a part of the loan if there is occasion for doing so, or of granting either in whole or in part such extensions as may be asked, if the circumstances warrant him in extending it.

It is true that the need of the borrower is more frequently than otherwise for a longer period than five years, but if he maintains a good record for his loan he seldom finds it difficult to obtain its extension at a moderate cost which, if divided by five, seven or ten, as the case may be, and treated as an annual expense, will usually seem to be a trifling one.

XVI

CONTRACTS AS TO PREPAYMENTS, ETC.

City loans are very common in which a large proportion of the value of the property is represented by perishable improvements that must necessarily depreciate with age, and in such cases the plan of requiring partial repayments to be made after one or two years in sums that will offset any such depreciation and in sums that can be realized from the net income of the property, is no doubt a wise one, and one which should be applied to all reasonably large city loans which approach the limit of fifty per cent. of the value of the security.

If moderately small city loans are considered, such as those on average priced dwellings, the probable future depreciation of the property should be discounted in the amount loaned, for if this is not done, and the required partial repayments to cover this depreciation rest upon the personal ability of the borrower, or upon the net revenues from the property when such revenues are not sufficient to justify the investor in looking after them, this repayment plan will often be a source of worry to the ordinary investor.

It is no doubt true that any plan requiring that prepayments be made is often of benefit to that class of borrowers who are inclined to use their money for

other purposes unless compelled to apply it upon their debts, but the smaller loans in which this is a prominent feature belong almost exclusively to such financing as is done by Building and Loan and other similar institutions which can make their prepayment collections at such frequent intervals and in such small amounts that there is seldom any occasion for waiving or extending them.

In the case of farm loans, however, there are at least two very good reasons why the required yearly curtailment plan is objectionable.

First, while the farm may produce a very dependable *average* annual revenue it cannot be depended upon to produce a *fixed* annual revenue. Too much depends upon seasons and conditions that are beyond human control, nor may the bad effects of a disastrous year be wholly confined to a direct loss of revenue from the crop affected.

For instance, if a farmer should meet with a total failure of his corn crop he may find added to his loss of expected revenue from this source the necessity of buying corn to feed his live stock, and if a prepayment on his loan should fall due in a lean year he might be compelled to make sacrifices or to ask for its extension, although his security was above question.

Second, a large number of the best farm applications are made for the purpose of obtaining money to use in making improvements to the farm or its equipment, and as returns on such outlays cannot be expected for some time, the farmer may not, meanwhile, be able to repay portions of his loan, although by its proper investment in barns, fences, ditching,

live stock, etc., he may have made himself much better able to pay it in full at maturity. Under such conditions, requests for waivers or extensions of credit are frequent and the lender is often compelled either to grant these requests or to foreclose his loan, neither of which actions was a part of his original expectation and neither of which is satisfactory to him from a business point of view.

Farming lands are, of course, subject to depreciation from neglect or mismanagement, but they are not subject to many of the other conditions which may depreciate city values; and when the betterment of farm loans is sought by requiring annual prepayments to be made it would seem to be chiefly from an ignorance of their peculiarities or an attempt to strengthen those which may have some questionable feature in location, amount, character, length of term, stability of value, or personal hazard that casts a doubt upon their entire desirability.

As has been stated, it is a very usual practice to make loan contracts in which an option is granted the borrower of repaying a part or all of his principal debt before its maturity and this is quite different in most of its effects from the above mentioned required prepayment plan.

There is, of course, some difference in the terms of such options as granted by different lenders, owing to the difference of opinion among them as to whether a liberal or a restricted policy is better.

Occasionally such privileges are granted without any restrictions whatever, or with the simple requirement that prepayments, if made, shall be on interest

dates, thus opening a door to short term loans at times when they are difficult to obtain through other sources. On the other hand, some lenders refuse to grant such privilege for more than a stated amount each year, and sometimes they stipulate that no repayment shall be made with borrowed money, thus unnecessarily hampering the mortgagor in the conduct of his affairs.

It may be said that there seems to be little reason or demand for the more liberal of these policies, and little, if any, benefit to be had from the very restricted ones; a middle course, however, has been found to be a desirable one; for instance, some lenders have had a very satisfactory experience in granting borrowers the option of making any prepayments desired at interest dates after the loan has run for two years, and also to make such payments at any time prior to two years provided an amount equal to three months interest is paid for the privilege.

Under some such a policy the investor may be protected against loss because of idle funds or reinvestment expenses, and the borrower is better able to control his affairs if he wishes to sell his property or to reduce his debt.

Reasonably liberal prepayment privileges are very much desired by the better class of borrowers, and especially by the farmers and such others as have few opportunities of making profitable temporary investments, for such an option furnishes them, in effect, with a Savings Bank that is absolutely sound, but they will seldom insist upon a degree of liberality that would be unfair to the investor.

Nor should the investor proceed upon the mistaken theory that no favors can be granted by him to borrowers without corresponding disadvantages to himself, for he will gain some advantage in every case where the borrower avails himself of a reasonable prepayment option; not because of any betterment that is made to the security by a reduction of the proportionate amount of the debt, for if the loan has been properly made the security will need no such betterment, but because of a certain betterment to the moral hazard which cannot be shown by any enforced prepayment. For instance, when voluntary prepayments have been made the investor may feel more assured that he will have no trouble because of defaulted interest, taxes, or insurance, that the ultimate necessity of a foreclosure has grown more remote, that the value of the property is not likely to depreciate from want of care and attention and that the borrower is, to some degree at least, prosperous and a good personal risk; while the *required* partial prepayment may have been met by the sale of stock or produce before it was ready for the best market, or by delaying needed repairs to the buildings or fences.

As a matter of course prepayment privileges increase the mortality of loans, and equally as a matter of course, the increase from this cause is greater during a period when interest rates are being lowered, and less during a period when they are advancing; it is also greater in the better class of loans and lower in the ordinary or poorer class, and, as has been noted in another connection, the activity or depression of

the Real Estate market also seems to affect it to some extent.

On the whole, however, the prepayment of loans is less than is often feared by the inexperienced investor who is contemplating the granting of such privileges, but what it will be cannot be estimated in advance with any degree of certainty unless all of the conditions as to territory, character of securities, and the terms of contract affecting a given collection of loans could be assembled, and then only as it would be indicated by some former experience under similar conditions. A general idea, however, may perhaps be formed from the fact that under fairly liberal prepayment options, and no prepayment requirements, several millions of dollars in medium sized high class loans, that are about equally divided between farm and city loans and are located in about twenty different States, have shown an average increase in mortality of about ten per cent.—that is, the average life of a five year loan according to this experience has been about four and one-half years when the final repayment of the principal has not been extended beyond the original period.

This increase in mortality, however, only shows the comparative effect of such prepayment privileges, for the actual average life of five year loans *with their extensions* is always much longer than five years, notwithstanding the fact that prepayment privileges have been granted.

XVII

CONTRACTS AS TO INTEREST RATES, ETC.

THE rate of interest that is to be paid by the borrower is also a necessary part of the loan contract and, next to the amount loaned, is probably the most important one.

Preliminary to completing the loan contract with the borrower, the lender determines upon and asks for a rate which he believes the condition of the local money market will entitle him to receive and which will make the loan a marketable one, and the applicant usually agrees to pay such rate provided that the security which he has to offer will not afford him better terms from other sources.

The investor very naturally desires to obtain as high a rate as possible and at the same time to maintain the safety of his invested capital and will always attempt to accomplish both of these objects although in practice he will almost unavoidably make one of them in some degree secondary to the other.

His business and that of the lender must, of course, show reasonable profits but if his primary purpose is safety rather than profit, his inclination is to make his rate demand as low as may be necessary in order to obtain the choicest securities and the main question with him is not then so much the question of larger or smaller profits as it is that of more or less desirable

securities. If, on the other hand, he is especially impressed by the importance of higher rates he will be inclined to demand as high a one as seems to him to be obtainable on good securities, and the main question will cease to be the unquestionable desirability of the loans and rest more upon the rate that is obtainable on those which may appear to him to be safe.

This difference between the maximum and the minimum rate asked, as such demand may be influenced by the above views, is usually that of one per cent. of interest, but it is sometimes more or less than this if the investor holds extreme views as to the greater or lesser importance of one of his objects.

The rental value of money on mortgage securities in any territory primarily depends, as does the price of commodities, upon its supply compared with the demand that there may be for its use, the demand generally representing some form or degree of Real Estate development or the refunding of old loans, and the supply of money for this purpose usually being more or less plentiful according to the known stability of Real Estate values in that section.

These local rates also vary somewhat in each section owing to the relative desirability and size of the loans offered, the minimum rate being granted to large or medium sized loans on the best class of property with wide margins of security and desirable personal hazards, and a higher rate being charged when any of these features are not so attractive.

The factor of time also enters into the question of local rates and as the shorter term mortgage loans are not so generally attractive to investors they often

command a somewhat higher rate than do those that run for a longer period, such mortgages being frequently taken by local banks, not as investments, but for the purpose of strengthening weak personal hazards.

It must not be understood, however, that these comments on interest rates are intended to extend in any manner to that class of loans commonly known as "short time" loans, for these are usually based upon the pledging of stocks, bonds, chattels or personal obligations. They are usually made with funds the owners of which desire to turn frequently or to keep as nearly as possible available for other uses, and they usually command rates which are very sensitive to changing conditions for the reason that this is also true of the market for the securities upon which they are made, and there is no occasion for mentioning this class of loans here except for the purpose of calling attention to the fact that the rates which they command are based upon a different set of facts than those upon which mortgage investment rates are based and for the reason that investors sometimes make the mistake of supposing that the reported rate in a given locality is necessarily the rate at which high class Real Estate loans can be made.

This discussion, on the contrary, is intended to be confined to interest rates upon the ordinary Real Estate loans which are made wholly and exclusively upon the security afforded by first mortgages on the classes of property which have been mentioned as being the most generally desirable for that purpose; and these loans, being made with funds the owners

of which desire to keep invested as permanently as possible, and being based upon values that are believed to be very stable, are written at rates which are not inclined to yield except under strong or long continued pressure; the non-liquid character of the loans tending to keep the rate up, while the stability of the security tends to keep it down; thus any variation from the standard rate on such mortgages in any locality is apt to be due chiefly to differences in the desirability of the individual loans.

A very common as well as a very serious mistake which inexperienced investors make is in demanding a higher rate than the one that is generally accepted on the standard securities of the territory, for such a demand always tends to drive away the better class of borrowers who can get accommodations elsewhere and serves to attract the less desirable class who find it difficult to get accommodated anywhere.

Such mistakes are often made by those who have no wish for undue profits at the expense of safety, but who have been misled by quotations of the rates obtainable in sections where they are not personally well posted as to the facts. The statement that a certain rate of interest is paid by the borrowers in a given territory may be, and indeed often is, accepted by them at its face value and, in a sense, the statement may be correct, but from a practical loan point of view the security itself needs to be explained; the territory may have faults which prevent its consideration on ordinary terms by other investors, the rates which are quoted may be those which are paid only

on the more undesirable loans or they may even be the rates charged for short time loans.

While investors in Real Estate loans very generally wish to confine their business to standard securities at the best rate which they can obtain, they will occasionally go into a section at a lower rate than has been customary there, with the idea that by so doing they can promptly secure a large share of the business of that territory, but in practice this plan seldom works satisfactorily, for the Real Estate loan business cannot be stimulated to any extent by lowering interest rates, and if other lenders meet the competition, which they are very apt to do, the cut-rate investor soon finds himself with no more and no better business than he might have had at the regular rate; for if he can establish a reputation for prompt action, fair dealing, favorable terms, and reasonable expense charges, such reputation will usually enable him to get and hold a good amount and good class of business at the full standard rate.

On the other hand, investors sometimes hold to the opinion that the obtainable rate is largely a matter of the asking, but this view is as far wrong as is the one that would expect to create business by lowering rates that are already reasonable and competitive; and an attempt to force either idea into the loan business will only end in disappointment.

The better class of borrowers, even the farmers who are remote from money centers, are usually as well informed as to the current rates of interest in their localities as they are on the market price of any com-

modities which they may desire either to buy or sell, and with few exceptions the price paid by them for the use of money will be found to indicate the true loan value of their securities as surely as that the price paid for the purchase of property indicates its market value.

There are sometimes exceptions to this rule but when one is found it suggests the possibility of undesirable conditions existing along other lines, such, for instance, as the personal hazard, and for this reason these cases should be given a very careful scrutiny before they are accepted as genuine exceptions.

XVIII

MODERATION IN THE DEMANDS OF THE MORTGAGEES

CERTAIN facts, which counsel moderation in interest demands, lie upon the surface and are patent to all investors and lenders.

It is true, for instance, that a section of territory which measures up to a high standard of excellence from a loan point of view usually enjoys a low interest rate and vice versa.

It is true that the minimum local rate, whatever that rate may be in any given territory, applies to such individual offerings as measure up to a certain required standard, and that those which do not so measure up pay a higher rate.

It is true that a fairly large number of the obtainable loans in any locality will be classed as undesirable by any expert in such matters and will not be wanted by the more conservative investors.

There is another fact, however, which is as true and as well known but which, unfortunately for the inexperienced investor, contains a suggestion of profits to be made by waiving the more conservative rules; it is the fact that many loan offerings may not be classed as wholly satisfactory but, nevertheless, cannot be said to be affirmatively bad, and that a seasoned investor by a wise and careful selection of such securities may be able to stay within the bounds of safety on the

limited number of these loans to which he can give a close personal investigation.

It is safe to say that few, if any, investors ever purposely allow their desire for larger profits to carry them beyond the limits of safety in selecting their securities, but it is also true that many, who are influenced by the above mentioned fact, unintentionally do so. There is no lack of arguments by which the unwary and inexperienced investor who has too much confidence in his own ability to discover exceptions to the general rules, or the greedy one who looks with too much favor upon high interest rates, is enabled to convince himself that he can ignore the more conservative rules of lending without danger of loss.

The poorer class of loans will not only yield a higher rate of interest to the investor but they will also pay more liberal commissions to the agent who negotiates them, and for this reason every "doubtful" section where the people wish to borrow money, and every questionable loan from whatever section it may come, may be expected to have enthusiastic advocates who will declare it to be as good as any and who will enlarge upon every favorable feature it may have and will depreciate every objectionable one.

Cases will sometimes be presented, of course, which are so worthless from a loan point of view that no convincing argument can be offered in their favor, but if they are simply questionable cases they will often be supported so skillfully as to deceive the unwary and unseasoned investor, for any undue anxiety on his part to secure a high interest rate

will encourage him to listen with a friendly ear to such advocacy.

The investor sometimes refers with pride to the fact that he has secured higher rates than have his competitors, but this is apt to be more a matter for concern than for congratulation. While there are occasions, such as the temporary withdrawal of investment funds because of some general disturbance of ordinary conditions, when he can favor his interest receipts without treading upon dangerous ground, it may be accepted as a sound conclusion that, in the regular course of the business and under normal conditions, he who finds a rate which is above the market or who imposes harsh terms or heavy expense charges and commissions in an effort to increase his earnings will get, on the whole, a poorer class of offerings than will the person who is content with more moderate profits and who is willing to grant more favorable terms.

A case in point occurred when a certain small insurance company, desiring to liquidate, offered to sell their mortgage securities; these were about sixty in number and one hundred and forty thousand dollars in aggregate amount (running fairly even as to the individual amounts), approximately two-thirds of these loans had been written at the then standard rate of five per cent. and the others at five and one-half and six per cent. rates. In order to induce purchasers the company offered to sell all or any of them on a six per cent. basis.

A buyer had the Real Estate examined by three competent appraisers; these appraisers were told

nothing and knew nothing as to the amount, rate or terms of any of the loans; their valuations were favorable as to approximately eighty per cent. and unfavorable as to twenty per cent. of the securities, and a further examination of their report showed that practically all of those which had been written at five per cent. had been recommended and that over half of those which had been written at a higher rate had been rejected; thus showing that the lending company, while securing an average of about one-fourth of one per cent above the standard rate on the whole amount of their investments, had acquired twenty per cent of unsalable (although perhaps not positively bad) securities.

It is not an uncommon failing, though few will acknowledge it as their own, to seize the immediate advantage even at a risk to the ultimate object, and the evil of this tendency when allowed to find place in the investment business is great, because in many cases no loss will occur and in each case where no loss occurs there is encouragement for further liberality. The inclination to overvalue good qualities and to minimize defects grows; after each fortunate experience, real loan faults seem to be of a less serious nature; and, when they are contingent on future happenings, such happening in the particular case under consideration seems to be unlikely, although experience may show that in the average case its occurrence is probable.

In this attitude of mind the investor is apt to accept promises of future betterments without question, and to conclude that under ordinary circum-

stances a loss would be improbable, that in any event it would be inconsiderable, and that a small loss, if it should occur in one loan, would be more than offset by the excess of interest received on many.

Somewhere along the above line of action and argument he, of course, leaves the field of investment and enters the field of speculation, and if he suffers no losses he soon becomes confirmed in these views and regards himself as an expert judge of such investments. His doubts come later when he attempts more extensive operations, for he then begins to realize more clearly that yielding to the temptations of more than ordinary profits most certainly means a departure from the more reliable class of securities. He finds the maintenance of an interest rate which is above the market to be a difficult and dangerous undertaking, bringing him into contact with more doubtful loans, more faulty titles, more objectionable moral and personal hazards, more misrepresentations of facts and concealment of adverse conditions than would otherwise be the case; and he finds that he who is able to steer his financial boat clear of these rocks must not only be very clever indeed but must also be very fortunate if he escapes loss. But even though he should accomplish this, he finds that his gross advantage is materially lessened because the excess in interest must be charged with the cost of an increased number of fruitless investigations and with the loss of interest suffered by reason of funds lying idle for want of sufficient satisfactory securities at the higher rate.

XIX

MINOR MATTERS OF LOAN CONTRACTS

THERE are certain other matters which will become parts of the loan contract when it is made, and, although in a way they are of minor importance, their careful consideration is, in no sense, unimportant, for there will be occasions when the interests of the parties will be affected by the policies which are adopted concerning them.

One of these matters relates to the payment of interest, the question being whether it should be made payable annually or semi-annually and whether its due date should be arbitrarily fixed or should be allowed to follow the date of the loan.

The proper answer to each part of this question seems to be based upon the same principle—i. e., that the ordinary income from the property should be expected to meet the interest charges when due.

The avoidance of defaults is the main object to be sought for, and it will be found that this can be better accomplished under certain conditions by adopting a rule requiring semi-annual payments and under other conditions by a rule requiring annual payments.

On city loans generally and on farm loans in sections where crops are diversified and marketable throughout the year, semi-annual interest is preferable, for aside from affording the investor a slightly

better return in the difference between the nominal and the effective rate, it also enables him to keep in a closer touch with his interest collections and with any changing conditions in the moral hazard.

When the income from the property is a steady one it makes little difference to the borrower when his interest payments may become due, but it is usually easier for him to meet semi-annual payments because they are smaller, and in such cases there are, without doubt, fewer defaults under a rule requiring them to be so made.

On the other hand, in those cases where the income from the mortgaged property is an annual one, such as a farm from which the principal "money crop" is marketed but once a year, the requirement of semi-annual interest payments will often work a hardship upon the borrower and will frequently be the cause of defaults, for the reason that at least one of the interest due dates will come at a time when there is no income from the property with which to meet it, and probably also at the time of the borrower's greatest expense in conducting his business.

Accommodating the date of the borrower's interest payments to the date of his income receipts will therefore lessen the danger of defaults, and in those cases where the income is an annual one it is also perhaps the best practice to fix an arbitrary interest due date to come at the most promising time for its prompt payment, although this will of course make it necessary in many instances to vary from a strict uniformity in the time and amounts of the interest coupons.

It would seem then that the interests of neither the

investor nor the borrower will be served by the adoption of a fixed rule to be applied in all cases, but that the interests of both will be served by a rule that in each case the requirements shall be made to fit the conditions.

* * * * * *

Another matter which may become a part of the loan contract and should be previously considered is that of fire insurance.

If buildings are a part of the Real Estate mortgaged and are insurable, it is always desirable, as bettering the moral hazard, that they should be kept insured whether or not the land value alone is sufficient to cover the physical hazard.

If, however, the land value is not sufficient in itself for the protection of the mortgagee and the buildings thereon are taken as a part of the physical security, it is not only desirable but is then very necessary that they should be kept insured during the life of the loan in a proper amount, written by a responsible company, and that the policy should be assigned to the mortgagee "as his interest may appear," and it is usual in such cases for the loan contract to provide for this.

The main questions to be decided in this matter are first as to the amount of insurance which should be demanded, and second, as to what rule should govern the acceptability of insurance companies.

As to the first of these questions, the only matter that can be profitably considered here is how to determine what is the minimum amount which the mort-

gagee can in any case accept with safety; and the best rule for determining this seems to be that it should be in a sum that is at least equal to the amount of the loan less one-half of the ground value.

When this rule is adopted it will be evident that if there is a loss and the insurance is collected and applied in reducing the debt, the remaining unpaid portion (aside from defaults) will be equal to only one-half of the value of the remaining security, and the loan will still be within the fifty per cent rule.

As to the question of the acceptability of the insurance companies, it may be said that the mortgagee will, of course, very properly insist that they shall be financially sound and of a good reputation for fair dealing. He will usually require that they shall be regular stock companies and will object to mutual or local assessment companies on the ground that they are generally of inferior financial standing and inconvenient to keep in touch with and that the validity of the assignments of their policies without the assignee incurring a contingent liability is also often open to question.

Lenders sometimes act as the agents for insurance companies and are then tempted to adopt the questionable practice of demanding, instead of soliciting, the business of writing the necessary policies for their borrowers.

From a loan point of view this practice seems to be faulty inasmuch as it tends to create an unfriendly feeling in those borrowers who believe that they have a right to place their insurance elsewhere and have good reasons for desiring to do so. They are willing

to do whatever may be necessary in order to make their security good, but they know that there are many companies against which no legitimate objections can be urged and whose policies would afford as full protection to the mortgagee as would those of his own agency, and they regard his action as that of going outside of any just requirements for the purpose of securing a little extra profit on the side.

Other matters which are commonly made parts of the loan agreement, such as the borrower's liability for certain agreed expenses, his obligation to furnish a satisfactory abstract of title with its necessary continuations, and to furnish evidence from time to time during the life of the loan of the payment of taxes and other liens having priority rights, require no special comment and may be dismissed with the remark that their terms, as well as those of all other agreements, should be reasonable, well understood and clearly stated in the contract.

XX

QUALIFICATIONS OF INSPECTORS

When an application for a loan upon Real Estate is submitted to a lender or investor and is found to comply with his requirements as to the various matters which have been referred to in these comments, there will still remain two most vital questions which must be fully investigated by some competent person in his behalf before he can reach an intelligent final decision for or against making any loan.

One of these questions relates to the actual value of the property *for mortgage loan purposes*, and the other to the legal value of the title in the applicant for such purposes, for it must be remembered that although the present market value of the Real Estate may exceed an amount necessary to justify the loan, it may nevertheless lack dependable evidence of stability, and that while the applicant may have a good prescriptive title that will enable him to hold the property in his possession, such title may not be sufficient of record to insure the safety of a mortgagee's interests.

It is customary for the loan value of the Real Estate to be determined in advance of the title investigation, the main reasons being that findings as to loan values are apt to be based upon a greater variety of facts than are findings as to title values and that any faults

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which may be found in the physical security are less likely to be curable ones.

The question as to whom this work of determining loan values shall be intrusted is a matter of grave concern to the investor. This person should, of course, be both honest and competent, but his qualifications should go beyond what is embraced in the ordinary use of these terms; his honesty should be of that quality which extends to an absolute thoroughness in his work and his competency should include a knowledge of all of the conditions which make and maintain values in the class of property and the territory that are to be investigated.

It would be useless to attempt to enumerate the various things which the inspector should know in order to be efficient in his work, for not only the class of property, but the territory will have its special requirements in these matters.

It may be said, however, that in all cases his knowledge should cover a wide range of facts that it should be dependable and that above all else it should be of a practical nature.

He should, for instance, understand the use and importance of the public records and approved plats in the work of locating and identifying property.

He should have a fair idea of the approximate cost of each of the various kinds of construction, of its yearly depreciation and its yearly cost for maintenance, of its suitability to its location and the proper balance between its ground and its building values.

He should have a good eye for details, and an appreciation of their relative importance and of their

relation to the principal questions under consideration.

His information does not necessarily need to be so complete as to qualify him as an expert in each and every minor matter, but it should be sufficient in these minor matters to enable him to avoid any serious mistakes in the main matters of which they are parts. For example, he may not have a working knowledge of any of the building trades, but in examining a city building of which any one can see the size, material, style, and equipment, the competent inspector will also see those little things which, although each is a comparatively small part of the whole, tell the true story of the general character of the construction, and especially of those parts which are hidden. His trained eye will not only observe the completed building but will also take note of its window glass, its hardware, its painting, its plumbing, its floors, its finish, its foundation, and its roof, and perhaps many other things which will indicate its relative cost and character, and, knowing something about each of these things, he will not be open to any considerable deception as to the cost of the whole and will be able to serve the mortgagee as well as if he possessed the skill of an expert builder.

Neither is it necessary that the farm inspector should be a soil expert.

In surveys which cover less than one-fifth of the total agricultural area of the United States there have been found to be more than seven hundred different types of soil and for the farm inspector to attempt a detailed study of them would be impractical.

But there are many things about the soil that he must know; he must be able to read the signs of its fertility as shown by its color and texture and normal water content and by its native growth of trees and grasses.

He will not neglect to note its workable qualities, its sub-soil, its drainage, its topography, its tendency to erosions, its liability to overflows, and its present state of cultivation, and will be able to arrive at very correct, practical conclusions as to its agricultural value although he may be unable to classify it by its finer distinctions.

He should be able to distinguish between profitable and unprofitable methods of farming, and should know something about the conservation of the soil and of practical methods of reclaiming worn lands, for otherwise he will often be unable to judge intelligently of the likelihood of future improvement or depreciation.

He should know something about the systems of land measurements and divisions in use in the territory in which his inspections are made, and it is especially important that he should have a good eye for distances and be able to estimate areas with approximate accuracy.

If he makes inspections in a section where the soil is liable to erosions, he should be able to judge of the efficacy of the terracing and other methods of prevention which may be used.

In an irrigated section he should understand the different ways of measuring water and the approxi-

mate amounts needed for agricultural purposes under the various soil and crop conditions.

In a "one crop" section he should understand the evil effect which this condition is apt to impose on the general market and be able to recognize intelligent neighborhood efforts to overcome it.

The various things which the expert inspector will see and from which he will form his conclusions might perhaps be seen by any observant person but not seen so clearly nor understandingly, and to rely upon his deductions from those facts would be like giving an unskilled person a set of surveyor's instruments and expecting him to use them skillfully—he might get some things right but his work would be lacking in any dependable qualities.

XXI

DUTIES OF INSPECTORS

Aside from questions of title and personal hazards, the loan value of Real property is based upon its market value plus the stability of that value, and the various conditions that indicate such stability or instability are known under the general term of the moral hazard and form the crux of the mortgage loan business.

The investor cannot expect to find, even in a limited class of securities and in a limited territory, that a state of facts of equal importance is co-existent in any considerable number of instances; some shades of difference will always be observed and some points found to be favorable and some to be unfavorable in almost every offering, and it is the most important work of the inspector to discover and assemble these facts and to estimate them at their true worth as affecting the general moral hazard.

Some of these hazards may be found to be affirmatively good and some to be bad; these will trouble the expert very little, but there may be others which when viewed from one angle will seem to be good and when viewed from another angle contain an element of uncertainty that may be very perplexing. It is true that a single unfavorable fact is often conclusive in itself, but this is never true of the single favorable

fact and in these cases where the hazard seems to be generally good although there is some cloud upon its excellence, favorable decisions should be withheld until all of the facts which may in any way affect the moral hazard have been very closely scrutinized.

There are persons, of course, whose experience has been such as to qualify them to judge intelligently of both city and farm values, but as a rule the opinion of an inspector, no matter how capable he may be in one field, is not dependable in both, for, as has been pointed out, the conditions in these are widely different in many respects and the things that may be obvious to the expert in one line may be entirely overlooked by the expert in the other line.

A most competent judge of farm loans may, for instance, be unable to see a "misfit" in a city building and its location, or he may fail to detect evidences of stagnation in neighborhood values. On the other hand, a shrewd and practical city loan man seldom knows the surface indications of an unfavorable subsoil and may easily be deceived by a brave showing of crops on land which could not produce them except under very unusual conditions, while each inspector in his own field would be able to see these things at a glance.

The opinion of a farm expert is seldom sought in the matter of city values, and a majority of investors in such securities would no doubt consider it unwise to do so, but it does not seem to be unusual for an investor in farm mortgages to make the mistake (although the *lender* seldom does so) of depending upon the judgment of a city loan man in determining

farm values. They apparently regard the expert in city loans as an expert in all Real Estate loans although in fact his judgment as to certain features of farm securities is really more apt to be at fault than is that of the farm expert when attempting city valuations.

The investigator is always at a disadvantage when attempting to do work outside of the lines to which he is accustomed, and this is especially true when the city man attempts the inspection of farms. When making city inspections he will find many distinterested persons among bankers, builders, money lenders and Real Estate dealers, the concensus of whose opinions is of value, but in the country he is without this aid, for those who know the facts will often hesitate to speak frankly to a stranger if doing so would be unfavorable to the locality or would be regarded as unfriendly by a neighbor.

While the neighborhood opinion as to the value of the property is always important, it is usually of more consequence in the case of a farm than of city property, for in such a case it will have more influence on the salability of the property; and in this matter it is much more difficult for any one, and especially for the city man, to get candid and truthful expressions from those who are in a position to know than it is for almost any one to do so in city investigations. This is not because of any local lack of knowledge, for the contrary is nearly always true, but it is because of greater suspicion of the stranger who does not "belong" and an appreciation of the fact that

more intimate neighborhood relations exist among country people.

The farm expert, however, when examining farm lands, is able to learn many things without asking questions, and when he finds it necessary to ask them, he knows how to do so in a way that will elicit much information which might and probably would be withheld if it were apparent that he did not understand his business. When examining farm securities, the city man who is inexperienced in that line soon realizes that he is at a disadvantage and sometimes attempts to offset his limitations by pretending to a knowledge of the subject which he does not possess, but this only makes matters worse, as no attempt could be more hopeless than this and the pretense only invites misinformation.

Another important feature of the loan value is the actual average income value of the property, and in the case of city property this can usually be determined with considerable certainty by the simple method of comparing it with that of like property that is similarly located; but it will be found that by far the greater number of farms are either occupied by the owners or are rented on a share crop basis, and in these cases the inspector must be able, from his own knowledge of the farming business, to make an approximate estimate of their average net earnings.

These are merely a few examples in a long list that might be given of the special features belonging to each general class of securities, but they should be sufficient to cause the investor to pause before intrusting loan valuations to any except those who are

expert judges of the kind of property under consideration.

The inspector's work should always be limited to the class of investigations with which he is most familiar, for in these he will be most practical and it is very important that his conclusions should be along practical rather than theoretical lines; and while certain rules as to valuations apply in all cases, each of the two general classes of property has practical features which are peculiar to itself and which must be taken into account in determining their loan values.

It is sometimes thought that a farm inspector must certainly be competent if he has a theoretical knowledge of the modern or what are called "scientific" methods of farming, but, while such knowledge is no doubt an asset, it can by no means be relied upon, because unless he can make his estimates of income on the basis of common ordinary farming methods and not allow potentialities to influence his judgment, he is apt to prove a failure, for the lender can only rely upon the ordinary methods being followed.

It will also be apparent that the same principle applies to city loans, and that while it is desirable that the investigator should have a broad enough vision to see the future possibilities of the property and the locality, he should estimate the value of this feature as appreciating or depreciating the moral hazard only, and confine his estimates to actual values as he finds them to be based upon the current facts.

XXII

BUILDING COST ESTIMATES

It is not to be expected, nor is it necessary, that the inspector who determines the loan value to be placed upon a building should have as exact knowledge of the cost of its construction as would be expected of a builder or contractor who might be asked to estimate the cost of its duplication.

It is quite important, however, for the inspector to be able to estimate its approximate cost with reasonable certainty, for such cost very frequently affects and sometimes governs the price for which the property can be sold, although so many other elements enter into the question of its loan value that the amount of its original cost less its physical depreciation may mean either much or little to the investor.

Expensive construction and a good state of preservation, for example, may be offset by conditions that interfere with the salability of the property at a price which its cost might otherwise seem to justify, and the main question for the inspector to decide is not upon its physical value as based upon its original cost less its physical depreciation, but it is upon the loan value shown by its present market value as justified by the stability of that value.

This is, of course, always the main question. It is true, however, that its consideration also usually

involves that of the cost of the building and the character of its construction, and that in those cases where the proper equilibrium has been maintained between its cost and the market demand, such cost less the physical depreciation is usually balanced with its value for loan purposes, except in special purpose properties and those which conform to temporary "fads" in style or construction.

A good class of material and workmanship in a building will go far towards indicating its greater ability to withstand depreciation from age and it thus enters into the moral hazard even when its additional cost does not warrant a corresponding increase in the loan value, and a "cheapened" building, although of good style and good present salability, must be discounted because of this fact.

It is evident then that the inspector should not depend wholly upon what he may be able to learn as to the market value of the property but should have a good working knowledge of the approximate cost of the various kinds and classes of material and construction, their average yearly per cent of depreciation from age and the ordinary cost of their maintenance. He should be able to recognize the different grades of material and workmanship and to detect any signs of cheapened construction and should be able to tell whether or not a proper equilibrium has been maintained between the "show" parts and the less prominent parts of the building as well as between its entire cost and the value of the ground.

Such knowledge can only be acquired by considerable study and experience, for costs of material and

labor vary at different times and at different places. and such things as foundations, inside finish and built-in equipment in the way of elevators, heating plants, etc., will considerably alter the cost of buildings which have very much the same general appearance.

If the inspector learns these things and keeps them in mind the following tables of approximate and relative values, etc., may sometimes be of service to him, but he must learn to use them only in the way of general information, for this is their only dependable use.

It is evident that two buildings of the same general style, construction and finish will, if built under the same labor and material conditions, cost about the same per cubic foot, notwithstanding the fact that they may differ somewhat in size and shape, and the following tables have been based upon what are believed to be the average prices and average conditions and reasonably free from the abnormalities of unsettled times.

It will be noted that there is considerable variation between the minimum and maximum estimates given in each case, and this makes the use of such tables impractical except for the purpose of showing the general facts; such variation, however, is unavoidable in tables which do not contemplate the exact duplication of every detail.

In these estimates calculations have been made from the floor of the cellar or basement to the roof in those cases where the roof is a flat one, and that

part above the eaves in which there is head room, in other cases.

Open porches are not included in these figures and perhaps they can be best estimated upon a square foot basis which in frame construction will be about one dollar for very plain ones and from two to two and one-half dollars for more substantial ones. Brick or masonry construction will add about 30% to these figures.

Cubic Foot Estimates on City and Town Property.

(Add 3/8c for slate or metal roofs)

Dwellings—Frame, hardwood floors and finish bath, furnace, laundry, good plumbing, 1st class throughout.....13 to 15c
Dwellings—Frame, part hardwood floors and finish, bath and furnace, good but inferior to above, ...10 to 12c
Dwellings—Frame, plain but good, pine floors and finish, no bath or furnace,.... 8 to 9c
Dwellings—Brick, 1st class, ...14 to 16c
Dwellings—Brick, 2nd class, ...11 to 13c
Dwellings—Brick, 3rd class, ... 10 to 12c
Large Brick or Stone Mansions—
1st class, good and substantial, ...40 to 53c
Additions to same, ...22 to 27c
2nd class, less costly but good, ...29 to 40c
Additions to same, ...20 to 27c
Flats—Brick, stone or ornamental brick fronts, fire-proof throughout, with elevators and all modern equipment, elaborately finished, ...55 to 60c

Flats—Brick, some ornamentation, well finished, with elevators, fire resisting floors, etc., good class, ...37 to 48c
Flats—Brick, ordinary class, plain but good, with elevators, ...28 to36c
Flats—Brick, cheap class, no elevators, ...20 to 27c
Store Buildings—2 to 4 stories, ordinary brick and timber, plain finish, no elevators, ...12 to 15c
Store and Office Buildings—Non-fireproof, complete with elevators and all necessary machinery, ...23 to 31c
Office Buildings—Fire-proof, complete in all respects, good but with plain finish, with elevators and heating plants, ...32 to 55c
Office Buildings—Fire-proof, steel frames, extra finish in all respects, cut granite in steel frames, etc., with elevators and heating plants, ...55 to 80c.
(Office buildings have a wide range of cost owing chiefly to ornamentation and the elaborateness of finish, etc.)
Warehouses—4 to 7 stories, mill construction, brick walls, freight elevators, ...13 to 16c
Warehouses—4 to 7 stories, fire-proof, extra heavy construction, elevators, brick walls, plain finish with good front, ...20 to 25c

Estimates for Buildings on Farms or in Small Villages.

(A very great variation will also be found in the practical application of these estimates, chiefly be-

cause of the difference in the cost of placing the material upon the ground.)

Dwellings—Frame, 1st class, good construction and finish, ...10 to 12c
Dwellings—Frame, 2nd class, plain, painted, small cornice, good foundation, ...7½ to 9c
Dwellings—Frame, 3rd class, box house, unpainted, no cornice, on blocks or piers, ..4½ to 6c
Dwellings—Brick, 1st class (as above),.....12 to 14c
Dwellings—Brick, 2nd class (as above),.....10 to 12c
Barns—Frame, 1st class, well finished, good foundation, painted, complete, ... 6 to 9c
Barns—Frame, 2nd class but good construction, good foundation, painted, ...3½ to 5c
Barns—Frame, 3rd class, cheap, unpainted. on blocks or piers, ...2 to 3½c
Country Stores—Frame, ordinary, plain finished, painted, good foundation, ... 7 to 9c
Country Stores—Brick, well finished, painted, good foundation, ...11 to 13c

The following table showing the depreciation of frame and brick buildings is said to be used by the United States Government:

Table

Brick when occupied by owner, 1 to 1¼% per year
Brick when occupied by tenant, 1¼ to 1½% per year
Frame when occupied by owner, 2 to 2½% per year
Frame when occupied by tenant, 2½ to 3 % per year

This rule contemplates a good grade of buildings on which ordinary repairs have been made, and it

should be varied as repairs have been more or less than ordinary.

The physical depreciation according to other authorities is for cheap frame buildings, ...10 to 15 years
Ordinary frame residences, ...20 to 30 years
Good class frame residences, ...35 to 50 years
Cheap brick buildings, ...25 to 30 years
Ordinary brick or stone buildings, ...35 to 50 years
Good brick or stone buildings, ...50 to 75 years
Best brick or stone buildings, ...75 to 100 years
The life of steel and concrete buildings is unknown.

Such tables are of little value, however, for they are intended to show only the average physical depreciation of various classes of construction and there are many other causes for loss of value, some of which are almost if not quite as relentless as time. For example, the physical loss may be very low and the building may have had the best of care and therefore may be especially well preserved, but the style of its architecture or of its inside arrangement or fittings may lose their popularity in a short time as they most certainly will do eventually, and when they do so the former sale values will no longer exist.

In reaching conclusions as to the market value of a building the inspector will also find that the relation which its physical value bears to the value of the ground upon which it stands is an important feature.

As a general rule, he will find that, in order to be well balanced, ordinary residence and business prop-

erties should not have an initial cost of less than the value of the ground nor should they exceed three times this amount. Other properties, however, such as apartments, warehouses, hospitals, etc., which require rather expensive construction but do not need expensive locations, may exceed this and sometimes are not out of balance at five to six times the ground value, provided that they are also well suited to their location in other respects.

This rule presupposes that in estimating city loan values only a suitable and necessary amount of ground will be considered; for instance, a house which would be suitably located on fifty feet frontage of land must not be balanced against the 150 or 200 on which it may stand, the vacant ground in such cases being very generally unproductive.

The same principle applies to farm buildings, but the question here is on their suitability and physical value measured by the needs of the whole farm, for in this case it is the productiveness of the soil that gives to the whole property its income value and in the other it is the housing needs of the people which makes the building itself do this.

Another very important matter for the inspector of city buildings to consider is the cost of maintenance of various classes of property. This is necessary in order that he may be able to reach safe conclusions as to the net earnings upon which the loan value of any particular property should be based.

This cost of maintenance will vary greatly, owing to the character, location and uses of the property,

but will probably follow a rule somewhat as indicated by the following:

Table

Ordinary store buildings about	10 to 15% of gross rent
Cheap residences without plumbing	15 to 20% of gross rent
Good residences	20 to 30% of gross rent
Ordinary office buildings	25 to 35% of gross rent
High class office buildings	40 to 60% of gross rent
Flats without elevators	35 to 45% of gross rent
Flats with elevators	40 to 50% of gross rent

Service costs will be found to make up a large part of the difference between the higher and the lower class properties above listed.

It will also be seen that the maintenance cost is proportionately less in the less expensive buildings, and if the gross rental affords the same interests rate in each case, the net interest earnings are less in the more expensive ones, and their owners must look to the enhancement of ground values and the longer life of the buildings, or, in other words, to more indirect results for their profits.

XXIII

PHYSICAL AND MORAL VALUES OF REAL ESTATE SECURITIES

Ascertaining the market value of Real Estate is not always as simple a matter as many persons believe it to be, although when the market for Real property in the neighborhood has been fairly but not unduly active upon ordinary cash terms, there will always be a basis for prompt conclusions.

Any variation from these conditions will present problems which should be referred to no one except an expert for solution. The local Real Estate market for some reason may have been unduly active and may have shown recent rapid advances, on the other hand, its market may have been stagnated or sales made at falling prices, or what is more common, asking prices may have been maintained but transfers only made under especially easy terms of payment or by exchanges of other property, and in any such cases its true value may be very difficult to determine.

It has been held that the price for which Real Estate is sold without distress and bought without necessity fixes its value, but this, of course, presupposes the price paid to be in cash or its equivalent. Theoretically this is a sound rule and one that should always be kept in mind and applied whenever possible, for no other one fact will point so strongly to

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the true value, but in attempting its practical application to mortgage loan valuations, difficulties will often be encountered, because of the fact that in a majority of cases it will be found that neither the property offered nor any similar nearby properties have been recently bought and sold under those conditions.

Where sales have been made without apparent distress upon one hand or necessity upon the other, it will often be found that the seller has had such profitable and immediate use for ready cash or the buyer such special use or fancy for the property as to induce the sale at either less or more than its real value, or it may be that the buyer's ignorance of real values, or his optimistic ideas of their future appreciation, or the exchange price of other property, or the advantage of a small initial payment or of a long time granted upon deferred payments have entered into the transactions and thus affected the price.

Evidences of the market value of property should first be sought by inquiries concerning recent transfers in that neighborhood and the conditions under which such transfers were made. Then, by reducing these conditions to a cash basis and comparing the marketable qualities of the property which has been sold with those of the property which is under investigation, the inspector may reach approximately true conclusions, provided that the local Real Estate market is a normal one.

In cases where it is found that no nearby property has been recently sold inquiry should be made as to what offers, if any, have been made and refused, and

if no offers have been made, then it should be ascertained what price, in the opinion of nearby owners or agents, could be secured and upon what terms; and these figures should then be checked against the present and potential income value of the property for ordinary and legitimate uses, taking into account its present condition and state of repair.

Efforts are often made to induce an inspector to give weight to very insufficient arguments and inconclusive facts. It is sometimes the foolish practice of agents and owners in those sections where there has been little activity in Real Estate to avoid the practical question of the price at which buyers for the property could be procured, and to seek to convey the information wanted by stating a price at which in their opinion neighboring properties could not be bought, which is no answer to the question at issue and imposes on none except the inexperienced. Assessments for taxation are so different in different places and under different systems that they are of little value except as they may put the investor on inquiry in those cases where they seem to be unreasonable; rumored sale prices and even considerations recited in deeds should always be accepted with caution and large gross incomes should never blind the inspector to the fact that it is only the *net* income which counts.

Arriving at safe conclusions in the matter of the moral hazard is sometimes difficult, more often and more especially so in the case of city loans, for these are much more dependent upon changing conditions than are farm loans; in these offerings the city itself must be first considered, its size and location, its

transportation facilities, the character and diversity of the industries from which it draws its support, its nearby rivals, and its general prosperity.

The general location of the property in the city must then be considered, whether or not such location is within the lines of the city's advancement and well within the limits of established values, its liability to heavy assessments for special improvements, its vacancies and their causes, and, in fact, all of the surrounding conditions which may indicate the probable permanency of the present market values, this being an essential feature of the loan value sought to be ascertained.

When the property itself is reached in this investigation, it must be measured by the requirements of its surroundings, it must be found to fit its location and uses, its style and construction should be such that it will not greatly depreciate during the life of the proposed loan, and, except when the money is borrowed for the purpose of its improvement, its present condition must be good.

The value of the ground should be in a fair proportion to the value of the entire property, its rental value for ordinary and lawful purposes should justify its loan valuation, and, if the improvements are designed for special uses, they should also be available for other purposes, unless the ground value alone will fully warrant the loan.

As to the stability attending farm values the situation is not nearly so complicated, and when the value of the buildings does not exceed the amount which is necessary to its proper equipment, the salability of

the farm is not so likely to be endangered during the life of an ordinary loan, except in those cases where the land is especially liable to overflows or erosions or the failure of irrigation systems or destruction of fences, nor is its salability likely to be affected by neighborhood changes, which may easily be the case with city property.

Occasionally a section will be found where the "bear" element seems to prevail in Real Estate matters, and its actual selling value is found to be below its ostensible value. Whenever this situation exists it should be accepted by the investor at its full face value, for whether it is well grounded or not, nothing will tend more to depress prices than will pessimistic views on the part of those persons who might be buyers or from whom prospective buyers will get information.

Nor, on the other hand, should optimistic views, which are much more common, ever be accepted at their face value, for it is probably true that no large number of loans, however poor, was ever made by any honest lender that was not warranted by the local ideas of conditions and prices at the time when they were made.

All matters which may affect the stability of values should, therefore, be closely investigated in the interest of the investor, and this should be done, if possible, by some one whose experience covers a wider field than the local one, and who knows better what may happen, the measure of its probability, and the measure of its damage to values if it does happen, than he who has only the local view to guide his judgment.

XXIV

ABSTRACTS OF THE RECORD TITLES

The abstract of title to Real Estate purports to show, and should show, the exact condition of the record title to the property up to the date when it is last certified. It is a most important loan paper, for the title in the borrower and his right to alienate the property are essential in every loan transaction and must be fully and definitely determined.

It sometimes happens that the record titles in a certain territory are not very generally satisfactory, but the reason for this is not so apt to be that the titles therein are bad as that there is insufficient evidence of good ones.

In a section where such a condition exists as to all Real Estate it has usually been brought about by the destruction of the public records. Other causes, however, such as the mistakes of incompetent conveyancers, the omissions of careless recorders or the indifference or carelessness of former owners who have neglected to have their evidences of title recorded, have contributed to a bad condition of the records of a large proportion of the Real Estate holdings in many localities, and such errors are found most frequently perhaps in some of the older sections of the Southern States.

Whenever these conditions exist to any considerable

extent it is a source of great annoyance and sometimes even of danger to the investor, because it creates a situation that must be met, as well as may be, by suits to quiet titles, statutes of limitation, or special legislative enactments, none of which is, under all circumstances, satisfactory or conclusive, although in any territory they sometimes afford the only dependence of the title.

There are few perfect titles, and all manner of faults may, of course, be found in the individual ones in any territory, especially in the older sections, but these can usually be cured, in a practical way at least, and marketable titles shown; and it is only when defects in the records are found to be very common and very serious that the investor is justified in avoiding the territory for this reason.

There is no other requirement of the mortgage loan business that is of more importance than that the abstract of the title record should be a true one, and yet it seems to be a very common practice among lenders and investors to accept at its face value any document which purports to be an abstract of the title to the property offered as security. They very properly rest upon the opinions of their attorneys but apparently fail to realize that the evil, if any exists, lies back of that and that all that such attorneys can do and all that they ever attempt to do is to pass upon the title as shown by the abstract which has been furnished them for examination and to recommend an additional showing of facts if it should be incomplete; their opinions never are and never can

be flatly on the actual title nor on the truth of the abstract.

Sometimes apparently complete abstracts are furnished and acted upon that are afterward found to be imperfect in some important respect, and for this reason it would seem to be a wise rule that none should be accepted without some evidence as to the equipment, reputation and responsibility of the abstractor who prepared it.

It is very well known that in many sections of the country there are persons or firms to be found in almost every county seat who are regularly engaged in this business, persons who are equipped with copies of the public records, which they keep up to date, of every transaction recorded therein affecting the title to each piece of Real Estate located in the district in which they operate.

It is possibly not so well known, however, that in many places where a considerable Real Estate and mortgage loan business is done there is no one who is regularly engaged in the business of abstracting the records, this work being attended to in each case as it comes up by some person, usually an attorney who is interested in the matter and to whom the work is an avocation instead of a vocation.

The abstractor who makes a regular business of the work has an advantage over others in the opportunity that it affords him for a more intimate knowledge of the history of all of the land titles in his territory and many incidental matters which indirectly affect them; and with such knowledge he is often better able than others to supply collateral evidence which will

serve to illuminate obscure places in record titles that might otherwise seem to be seriously defective.

Under ordinary circumstances it is often found to be sufficient in "perfecting" record titles, that is, in making them good and marketable, that quit-claim deeds or disclaimers of rights or interests shall be executed by those persons in whom there may be rights or interests which would cloud the title in the applicant, or that affidavits shall be procured from such reputable persons as may have a probable knowledge of the facts when they are found to be necessary in order to establish such things as the dates of deaths or marriages or the identity of persons whose names appear differently in the records.

These are, of course, matters for the investor's attorney to pass upon, but the well equipped and competent abstractor can and does aid him in this work.

When the record of a title is abstracted by a person who is not regularly engaged in the business, he may do the work as thoroughly and make as true and complete an abstract as any, and this is perhaps generally the case, but persons sometimes undertake the work who are incompetent, careless, and irresponsible, and the greater number of these will doubtless be found among those who are not regularly engaged in the business.

The alleged abstracts made by such persons are often based upon indexes only; wills, deeds, mortgages, releases, etc., being simply cited as such in the abstract, notwithstanding the fact that by the exact terms of these documents, the maker of the will may not have legally and unconditionally devised the prop-

erty in question to the person who is supposed to have inherited under it, nor the deed have conveyed an indefeasible title to it in fee simple to the grantee, nor the release have fully released it from all claims under the mortgage.

It is true that the abstractor certifies the abstract and that in many instances he is a person of financial responsibility or that he is bonded (which is a requirement of the law in certain States), but these safeguards only cover the fact that the various records have been examined by him and nothing found therein that is not shown by the abstract, and neither his personal responsibility nor his bond may be adequate to cover losses that would be possible because of serious mistakes or oversights on his part.

Although no ultimate loss may occur, carelessly made abstracts show many titles to be seriously defective when such is not really the case; on the other hand, they often fail to show existing incumbrances and title complications.

In order to avoid "unnecessary" work such abstractors sometimes use "copies" of abstracts into which many errors may have found their way, and for the same reason they are careless in the matter of affidavits, for it is little trouble to procure these, and many which are wholly unreliable are used for the purpose of curing the defects which their "abstracts" may show.

Occasionally a dishonest abstractor, having an interest in showing a good title, has been known to deliberately make such a showing despite the records by supplying the missing links in a broken chain of title by

pure invention, or by purposely omitting items which would show a state of facts other than the desired one.

Two plans are used to overcome such record-title difficulties as are herein mentioned, but each is used in a very limited area; one is the introduction of the Torrens system of title records, and the other is the establishment of Title Guarantee Companies. Under the first plan the title is guaranteed by the State or County after it has been tried by a constituted authority and adjudged to be good; under the second it is guaranteed by the title company after they have examined it and have decided that it is insurable. Each plan involves some expense to the property owner, but each seems to afford some protection to the lender provided that the liability is clearly defined, that the financial responsibility is ample and that relief is apt to be reasonably prompt if needed.

Whatever advantage these plans may present, however, their operation fails to extend to the greater part of the best loan territory, while the guaranty that is afforded the mortgagee by the work of fully competent and responsible abstractors and title attorneys can be had in almost any good territory and is in fact an exceedingly strong guaranty and one upon which he may rely with great confidence.

XXV

THE ACTUAL TITLE IN THE APPLICANT

THERE is, however, another feature of the question of titles which must not be overlooked in this connection; it is the condition of the *actual* title in respect to those things which may affect the mortgagee's interests, for it should be noted that this condition may or may not be shown by the *record* title—for instance, the record does not, and cannot, show who is in personal possession of the property, but the fact of possession, if under color of title, may determine a better title than the one of record although that one may be complete.

An easement may also become a definite right in persons who do not hold the fee, although it has never been made a matter of record; or rights of recovery from the property may accrue under mechanics and material-men's lien laws, which claim, when filed of record, may take precedence over the rights of a lender, although his mortgage may have been executed before the actual filing of such lien, or a homestead right in the borrower that would prevent a recovery by the lender, may exist without being shown either of record or by any visible possession of the property, or transfers may have been made for the purpose of evading a law enacted for the protection of the wife's interest.

Examples might be multiplied, but under a careful system of examination the danger of loss to the investor is extremely small for the probable existence of such defects is nearly always indicated in some manner by the statements or by the absence of certain statements in either the application or the abstract and also in many cases are suggested by the surrounding circumstances which come under the supervision of the inspector, who should be fully awake and watchful along these lines.

For instance, if the application states that the property is occupied by a tenant and the occupant is found to be a person of the name given and apparently one of the tenant class, whose answers to questions as to the terms of his tenancy go to support such statement, the danger of his having any claim to ownership may be considered negligible, especially as it is a trait of human nature for him to claim everything to which he thinks he is entitled.

On the other hand, if the occupant is evidently not of the tenant class, or if he is a near relative such as a son or daughter of the applicant, a more careful investigation should be made, and unless this is fully convincing, due caution will suggest that the occupant should be required to make a written disclaimer.

Easements are not ordinarily of a very serious character from a loan point of view, but they may, of course, be such as to depreciate the value or salability of the property, and, if they exist, their terms should be known to the mortgagees. The signs of their probable existence and importance will be noted by the expert inspector, for they will usually be indicated by

paths, roadways, stairways, irrigation ditches, etc., used by persons other than the owners or occupants of the property, or they may be shown by the encroachments of the fences or buildings of the adjoining properties.

The probability of the right to a lien against the property having accrued for labor or building material, is also usually shown upon the surface, the application should contain a statement covering this point, but notwithstanding any such statement, if the property has been very recently built or repaired, or if there is any evidence of work having been commenced or material furnished for new buildings on the ground included in the application, the borrower should be required to execute a bond for the protection of the mortgagee.

The homestead and exemption laws of the various States are not generally such as to demand more than the ordinary attention of the investor, but this rule is not universal, for in at least one instance, they are of very grave importance indeed, the rights under them being great and being based wholly upon the question of fact, which is made susceptible of proof in court, and if proved will be so held to be, although the borrower may have made contrary declarations under oath for the purpose of procuring the loan. It behooves the inspector then, in cases where this question is involved, to discover the facts, and he should examine, not only the property offered as security, but also the declared homestead, in order that he may know it to be clearly defined and actually the homestead of the applicant, and he should also make

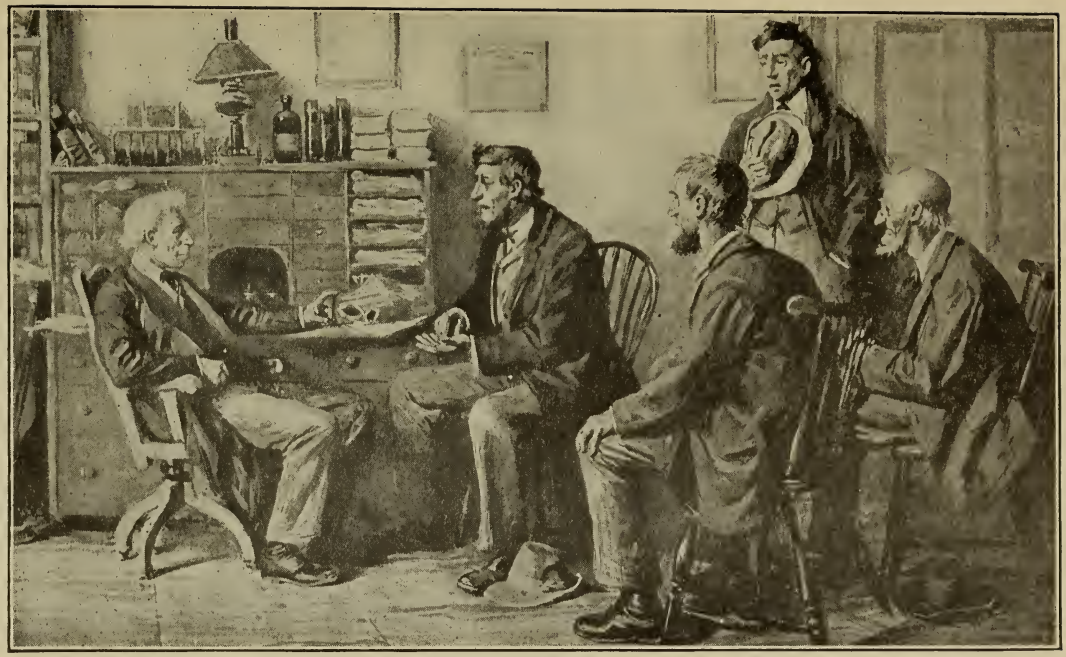
judicious inquiries as to these matters of persons who have a probable knowledge of the facts, as the answers to such inquiries will often show whether or not there is any danger of an attempted evasion of this law.

There is another matter which is of the same general class as the title complications referred to and which may be mentioned in this connection; this is the question of identity, the identity of the property examined by the inspector with that described in the legal description in the application, and the identity of the person who executes the mortgage and receives the proceeds of the loan with the person who owns the property.

This is so vital to any loan value, and the loss, if any is suffered, is so apt to be a serious one, that it would seem to be unlikely that any investor or lender would neglect to have the facts fully determined, but loss and trouble because of mistaken identity occur so infrequently that they seem never to be expected nor regarded as a present danger.

There is, however, a great deal of carelessness in this respect on the part of both lenders and inspectors, who seem inclined to accept statements as to identity at their face value without verifying them, often examining and passing upon the physical value of any property which is found to bear the proper street number, or which may be pointed out to them as the property offered in the application, and accepting as such, any person who may introduce himself or be introduced under the name of the owner.

This statement may appear to be rather an extreme



NEIGHBORHOOD KNOWLEDGE

one so far as the practice of a majority of lenders is concerned, but the fact that there is a great deal of carelessness in such matters is attested by the success of such mortgage loan swindlers as have used false descriptions and false personifications to accomplish their purposes; nearly all land and loan swindles being based upon insufficient investigations along this line, for this is believed to be and probably is the most vulnerable point in the armor of the intended victims.

Any of the matters that may require a personal investigation in order to determine whether unfavorable facts exist which are suggested but are not clearly shown will be open to one source of information which should not be overlooked. This may be called the "neighborhood knowledge." This is especially available in country districts, where it usually reaches much further into details than does the same kind of information obtained in city investigations, and while it may not always be dependable it should not be ignored, for it is almost sure to contain some kernels of fact and some suggestions as to the lines of inquiry which may be pursued with profit by the lender.

This "neighborhood knowledge" very often goes into the bona fides of the transaction; it may show that mis-statements may have been made, such for instance as that the proceeds of the loan are not likely to be used for the purpose stated in the application, or that the stated cash purchase price was, in fact, an exchange of overvalued properties, or it may develop certain adverse matters which have not been previously considered, such as that of the notary having

an interest in the transaction that might invalidate it, or of the total cost to the borrower being an amount which would constitute usury under the laws of the State in which the loan is to be made, or that the loan has been rejected for cause by other investors.

Any small bits of information along these or similar lines which serve to cast a doubt upon the safety or entire desirability of the loan will be notice to fully competent and expert attorneys and inspectors which they will not neglect to observe if they are well fitted for such employment, and the danger to the investor from such complications is thus reduced to a minimum.

XXVI

THE PERSONAL HAZARD OF THE BORROWER

What has been spoken of in these comments as the personal hazard of a loan goes to the disposition and ability of the borrower to take proper care of his obligations and of the mortgaged property during the life of the loan, and to repay the principal when the loan matures.

Some investors and lenders do not attach any great value to this hazard; they hold to the opinion that only the marketable value of the property and its title can be depended upon to make the loan a safe one. They also hold that changes of ownership are so frequent and so uncertain that a good personal hazard of today may be a poor one tomorrow, and, strictly speaking, in both of these contentions they are right.

This view, however, omits the consideration of certain practical and human features of the business and seems to be rather in line with the ancient idea, which is a wrong one but which still lodges in the minds of a few persons, that the interests of those who borrow and those who lend money are conflicting ones. Nor do these contentions, although technically right, dispose of the very practical fact that less trouble is actually experienced by the investor with the average loan that starts with a good personal hazard than with the average one which does not have that advantage.

A more comprehensive view, perhaps, is one which recognizes the fact that the relations of the lender and borrower may be, and should be, both businesslike and friendly; that the terms of the contract should be observed and enforced, but that this rule is a general one, and that there may sometimes be occasions when its strict enforcement would work an unnecessary hardship, and occasions when its liberal interpretation might encourage and enable an unfortunate borrower to meet his obligations, and thus prove to be the most satisfactory policy for both parties.

This last view regards a good personal hazard as having a very distinct value—not exactly as being a necessary part of the security itself, but rather as being something which is added to it, and which will go to make an otherwise safe loan a more desirable one. In other words it is a promise, the lack of which may be taken as a warning of possible defaults in interest, taxes, and insurance, or of a neglect of the property itself which might result in a depreciation of its value.

It also recognizes the fact that there is seldom or never any desire on the part of the lender to needlessly distress the borrower, but that unfortunately there is a class of borrowers who are disposed to take advantage of this fact, and who will neglect their obligations to such an extent that many investors and lenders regard their connection as undesirable, although their business may appear to be safe.

It is true that the actual value of the security must be ample and that the title must be a good one, but these things alone do not insure the specific perform-

ance of the contract and the avoidance of foreclosure; nor, for that matter, does a good personal hazard do this, but it does add something to the prospect of the loan's record proving to be a satisfactory one.

At the outset a good personal hazard has a decided advantage, for, while transfers will be more frequent under some conditions and less so under others, it is estimated that, under the average conditions of Real Estate market activities, approximately eighty-five per cent of the ordinary classes of mortgaged properties have no change of ownership during the life time of an ordinary five year loan; this leaves only fifteen per cent in which there are such changes, and although there is no rule that either good or bad personal hazards in these cases will follow those which are of the same character, they undoubtedly do have a tendency in that direction, for the reason that men deal more often than otherwise with those persons who belong to the same class with which they themselves associate, and the property of one of these persons is more apt to be known to and to appeal to another of the same class, just as the well kept property of one who is thrifty is more likely to attract and create a desire for ownership in the mind of another thrifty person than it does in that of one who is himself careless and who is indifferent to its well kept condition.

The condition in which the applicant keeps his property and the reputation he has achieved among those who know him and have dealt with him, for the payment of his obligations without resorting to unreasonable delays or contentions, may be accepted by the lender as strong evidence of the habits and

principles, which will probably dominate his future actions.

Aside from the fact that good personal hazards are more apt to be found in those sections where good physical hazards are the rule, social distinctions or rules which apply to classes are of little value, for in considering this feature of the loan each case is necessarily an individual one, and the poor negro cotton farmer may be found to be a better personal risk than may the man of much greater wealth and standing who relies upon his position in life to excuse his lack of prompt performance; or the same applicant may prove to be a better risk in a case where he has an interest in the property over and above his financial interest, even if his holdings are small, than in a case where he has no such additional interest in the property although its money value is much greater.

For example, he who is the owner of rental property may be indifferent as to its upkeep and at a pinch may risk its sacrifice, but the property which is his and his family's home usually has for that reason an added value in his eyes which disposes him to make extra exertions, if necessary, to protect it.

As to the question of the borrower's ability to take care of his obligations and to protect his interests, there are many facts which will serve to point with reasonable certainty to correct conclusions; for instance, if his chief dependence is upon his personal skill and ability, either physical or mental, these should not be found to fall below par as compared with the magnitude of his undertakings, and in such cases his age, equipment, industry and economy, his

success or failure in business matters and also any financial burdens which he may carry, such as expensive habits or the support of extravagant and non-producing dependents, should be taken into consideration.

The applicant may, however, and often does, have resources and property holdings in addition to the property offered as security, and if these are substantial in character and sufficient in value above his indebtedness that fact may in some degree lessen the importance which might attach to a personal hazard which is without such material helps. But it should be remembered, when considering this feature, that character is a more dependable possession than wealth, and that the owner's property holdings may easily exceed his ability to manage them profitably.

Careful inquiries and, when possible, personal observations should always be made to determine the personal risk that may go with each loan; and if direct knowledge is not obtainable and answers to inquiries only must be depended upon, it must be remembered that such answers should come from the best and most disinterested sources which may be available, and that conclusions should be drawn, if possible, from a concensus of opinions rather than from that of any individual, for neighborliness or other interest in the applicant's success in getting a loan often unduly colors such answers and opinions. The investigator should also be fully aware of the fact that he must not expect to get any answers that may be inimical to the interests of the applicant if the applicant or his agent is present at the time.

In the case of farm loans a direct knowledge of the facts is more available, and the inspector, in addition to making judicious inquiries, always can and should report upon the personal hazard which is shown by the condition and care of the buildings, fences, implements, live stock, etc., and the general state of cultivation of the land itself, for from such observations very dependable conclusions may be drawn.

All of these matters should be kept in mind, but among the various things that go to indicate the hazard, perhaps the most important one is the purpose for which the proceeds of the loan are to be used.

A very common use for the money is as a part of the purchase price of the property offered as security, and in many cases this use is very favorable to the hazard; another very common use is the making of betterments to the property mortgaged, and this is also favorable if the loan asked for is upon the basis of the value of the property before the betterments are made.

Other good uses for the proceeds of a loan may be the purchase of other real or personal property which will add an amount to the borrower's net income in excess of any interest he has to pay for the use of the money; or the money may be needed for the purpose of prosecuting or enlarging an already successful business, or for the refunding of other debts, when at the same time the borrower is reducing his total indebtedness. On the other hand, there are many purposes for which money is sought to be borrowed which should cause the lender and investor to hesitate,

for they may either indicate a bad business management of the applicant's affairs in the past, or contemplate investments which are more in the nature of new liabilities than of additional assets.

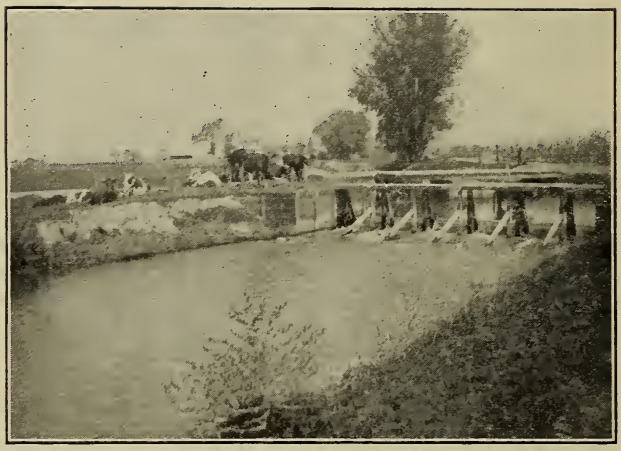
XXVII

IRRIGATED LAND

Another matter to which special attention should be called is that of irrigation, for the business of lending money upon the security of mortgages upon irrigated lands is one which is seldom fully understood by those who have confined their operations to those sections in which the rainfall alone is depended upon to supply the agricultural needs.

While no very comprehensive discussion of this subject is possible here, the mention of a few of the more important conditions which are peculiar to such lands and to land loans in cases where the value of the land depends largely upon its artificial irrigation, may give the uninformed person a clearer idea of the subject and a better knowledge of the lines along which investigations should be made when this class of securities is to be considered. As these matters are not always understood, the following facts are given as affording some basis for their study.

Large sections of our country are either arid or semi-arid and, in others the rainfall, while sufficient in quantity, is not well distributed for agricultural purposes. In much of this territory, however, the land is so rich in all of the other necessary constituents for the production of crops that by the



IRRIGATION CANAL

addition of the needed amount of water it can be made to yield most abundantly.

Experience has shown that one of the most important factors in the fertility of the soil is that of the proper content of water and that in many cases it is possible to control this excess or defect in moisture by drainage when it is excessive and by diverting water from streams or pumping it from beneath the surface onto the land when it is lacking.

The agricultural value of irrigation has long passed the experimental stage and while much may yet be learned as to the best methods of using it, the general benefit to be gained by its use when needed is no longer a matter of any doubt nor is there any question but that intelligently made loans upon irrigated lands are as satisfactory to the investor as any others.

The fact is well recognized, however, by those who are experienced in this class of securities that their proper selection requires a fair general knowledge of the subject of irrigation insofar as it may affect such loans or the territory under consideration, for lending upon these securities has certain peculiar features, and losses may easily result from the lender acting upon an insufficient knowledge of the subject.

For instance, the land and water together may be ample security for the proposed loan, although the land alone may be wholly inadequate security, but mortgages are made upon the lands only and this introduces a complication, for while the title to these includes the buildings and other improvements thereon together with the irrigation ditches, etc., the title to the water, if it is from a flowing stream, is a

separate thing, and its use in connection with the land is subject to certain rules and conditions for "water flowing upon the surface of the earth is neither land nor tenement" and is not susceptible of absolute ownership and the mortgagor can only assign such rights as he may have in it as collateral security.

But notwithstanding these facts, the availability of irrigation water to be had upon satisfactory and dependable conditions enhances the actual value of the land upon which it can be used with profit, just as the nearness of markets, good roads, and neighborhood development generally may add very materially to its value although the title to the land does not carry with it any enforcible claim of title in them.

Flowing water is the property of the owners through or between whose land it flows, subject, however, to the rights of other riparian proprietors above or below, although when separated from the body of which it constituted a part, it may be bought and sold like other commodities.

The waters of a stream flowing through the public lands are a part of the public domain but after the general government has parted with the title to the soil the right to control the use of such waters passes to the State where they flow and various acts of Congress and the statutes of various States bear upon this subject, with the main object, it would seem, of the establishment and definition of what are known as priority rights.

As this doctrine of prior rights grew out of the local rules and customs of miners and was based upon the wants of the community and the peculiar social

and industrial conditions locally prevailing to which the rules of the common law were at first considered inapplicable, the interpretation of the acts and statutes governing these matters have necessarily required many decisions from the courts in determining the rights under the law of the claimants to the use of water.

This question of the priority of the water right goes further, however, than simply to its legal status and extends to the amount of water available under any such right as may exist, compared with the amount needed for practical purposes by the irrigation system which it is expected to supply.

The first right to the use of water may be a permanent one, held absolutely, or it may be subject to certain conditions, restrictions, and reservations but in any case it takes precedence of all subsequent appropriations, for these secondary rights must not interfere with the right of a prior taker to have the full benefit of his appropriation, and one who goes upon a stream and diverts the water from it is bound to take notice of all prior appropriations.

It is not the intention, however, to go into a discussion of the legal features of irrigation projects and mention has only been made of the above facts in order to show that the right to take and use water for this purpose involves legal questions which should not be carelessly passed upon but which should be submitted to the judgment of a competent local attorney.

Preliminary to even the most superficial knowledge of the subject of irrigation the investigator must, of course, understand the meaning of the terms which

are commonly used in discussing it, and at first he may be somewhat confused by the fact that different measurements are used to indicate the amount of water that is used or is available—these are miner's inches, second feet, and acre feet, and may be defined as follows:

A Miner's Inch is the flow of water through a hole one inch square with a four inch head—it is measured by placing a board, in which there is a hole one inch square across a stream so that it will "backup" and maintain a depth of four inches of water above the hole. Neither the factor of time nor of amount of water enter into this measurement, for it was originally designed solely for the use of miners who were only concerned with the size of the stream and the force of the flow.

In applying the measure to the flow of water for irrigation purposes, however, the factor of time is introduced, and it has been found that the miner's inch flow per minute of reasonably clear water will be approximately nine gallons.

A Second Foot is a cubic foot of water passing a given point in one second of time—it is equivalent to 50 miner's inches and is calculated to give a result of 450 gallons per minute; it is used in measuring the flow of larger streams as the miner's inch is used for the smaller ones. The second foot flow of a stream is usually measured from a weir or dam.

An Acre Foot is 43,560 cubic feet or about 325,829 gallons and is equivalent to a twelve inch rainfall over an acre of ground. In point of time the acre foot is

usually calculated as an annual distribution and calculated by weight will exceed 1,300 tons.

One gallon contains 231 cubic inches, one cubic foot contains 1,728 cubic inches or 7.48 gallons, one acre contains 43,560 superficial feet or 6,272,640 square inches and the following calculations will show (theoretically) the results to be obtained in the distribution according to its measurements of water on the land.

One miner's inch in a 24 hour run over one acre is equal to .471 inches of rainfall, 2.1 miner's inches being equal to a one inch rainfall, and 25.2 miner's inches equal to twelve inches of rainfall. One miner's inch flowing continuously for one year will afford water sufficient to cover one acre of ground to a depth of 14.1 feet. One second foot or fifty miner's inches in a 24 hour run per acre would equal 23.89 inches of rainfall and one second foot in constant flow and evenly distributed over 160 acres would equal 54 inches of rainfall, but these calculations are all theoretical and fail to take into account certain practical facts which very materially reduce the amounts actually obtained at the points of contact with the roots of the plants for whose benefit it is intended.

The reductions which must be made from the above estimates are due to many causes and often amount to as much as 50% of the measured flow. First, nearly all water taken from streams carries silt and other foreign substances which greatly retards its flow; second, the loss owing to evaporation is very great, especially in the hot and dry climates where irrigation is chiefly used; third, there is much loss

from seepage, especially in the use of earth conduits; fourth, there is waste from saturation at points of distribution.

In many instances water is pumped from wells or underground supplies (unless flowing wells may be had) and sometimes from ponds, lakes or artificial reservoirs. This adds to the cost of irrigation the expense of using artificial power instead of gravity but it usually has the advantage of the supply having a greater head and being nearer to the point of distribution and also of clearer water (it also avoids the danger from the seeds of noxious weeds which are apt to be carried by the open stream).

A larger head and volume will overcome some of the losses above noted and 100 inches of water will be more effective on 100 acres than will 50 inches on 50 acres. At the point of distribution onto the land a tight soil will absorb less water than will a loose soil and cement flumes or pipes are sometimes used for mains with metal or canvas pipes or hose to convey the water over the land. All of these things result in economy in the use of water and sometimes bring the efficiency of the water supply up to nearly its measurement capacity.

The investigator should also have some knowledge of what is called the "duty of water." He should understand, however, that this term does not indicate that any given results can be expected from the application of a certain amount of water to a certain quantity of land, otherwise he may make the mistake of adopting arbitrary rules in this matter, for in practice it will be found that the kind and texture of the

soil and sub-soil will affect the proportion of efficiency between equal supplies of water and also that the relative amounts needed for the various crops differ greatly, and that the amount which is found to be ample in some cases will fall far short of the necessary amount in other cases (where either the texture of the land or the crop to be irrigated is different); but the "duty of water" as it may be affected by existing conditions should be understood by him in order that he may be able to judge as to whether or not the supply is sufficient for general agricultural uses on the kind of land irrigated, or whether it is limited to the amount necessary for special purposes only.

XXVIII

DRAINAGE

It is the intention of these comments to discuss briefly the more general matters and the more pertinent questions which may arise from a consideration of the subject that is indicated by the sub-title. In this case the subject of drainage is of importance to mortgage loan values and gains interest because it is in many features the converse of the preceding comment on irrigation.

A more comprehensive view of this can probably be had if the question is regarded as being more truly upon the subject of providing farm land with the proper content of water, whether the desirable content is in excess or in deficiency of what it should be in order to insure a potentiality in crop producing that would not otherwise exist. This subject then may properly be considered as pertinent to either, or rather to both comments.

Land which in its normal state may be arid or semi-arid and also be in a sense, unproductive of profitable crops, may, under favorable conditions be redeemed by irrigation. This matter has been touched upon in the preceding comment. An excessive opposite condition is often found in other considerable areas where drainage is required, and which for this reason may be as wholly unproductive of ordinary

agricultural crops as are the arid and semi-arid lands, when without the aid of irrigation.

In many parts of the country, then, large sections of land exist where the character of the surroundings and the low elevation are such as to hold for extended periods of time, the water which collects and impregnates the land that it covers. The total area of such land is estimated to be approximately 155,000 square miles, about one-third of which is only periodically overflowed. All of such lands, however, are generally classed as swamp lands and are often reclaimed by the building of gravity drainage canals or the dredging of their natural outlets which were originally supplied by streams. The large excess of water usually found in swamp or bog lands is generally caused by precipitation or by the supply which is collected there from streams or springs which have no sufficient outlet, or from the overflow of nearby swamps and from percolation from adjacent wet lands.

The necessity for the drainage of any land whether by natural or by artificial means extends to the area covered by the limits of all agricultural lands and affects a vastly larger area than does swamp land drainage or its converse, irrigation.

In this comment the consideration of this matter has dealt chiefly with the two extremes in water conditions and has kept in mind the larger areas which have been so affected. The total area of agricultural lands which, in their normal state, are either too wet or too dry for profitable farming although redeemable, is much less than is the area of the lands where

a dependence is placed upon a sufficient average rainfall.

The average annual rainfall in any particular section is in a degree dependable for calculation, but to hope that it will be distributed in a desirable way is to hope for a great uncertainty. In almost every section and in almost every year there may be found districts and seasons, where the rainfall may have been undesirably heavy or undesirably light as measured by the requirements of the crops. The only relief from this condition seems to be by drainage and farmers in many of those sections where the threat of the season's uncertainty is not imminent, adopt the plan of open ditches. This plan often gives them some relief and recommends itself to many, for its original cost is so much less, although its upkeep is greater than tile drainage as it requires more frequent attention.

The unqualified success, of any irrigation or drainage plan rests upon the presence of sufficient crop producing elements, and upon the lack of any injurious elements such as the acids and alkalies. With an underground drainage, however, even these defects may be cured.

The need of artificial drainage to supply the requirements of natural conditions extends to all parts of this important area and the character and amount of such drainage varies with the different conditions of elevation, climate, topography, rainfall, character of soil, sub-soil, etc. A discussion of drainage would be a useless undertaking were it made in the hope of

mentioning all the conditions that might arise even in a limited territory.

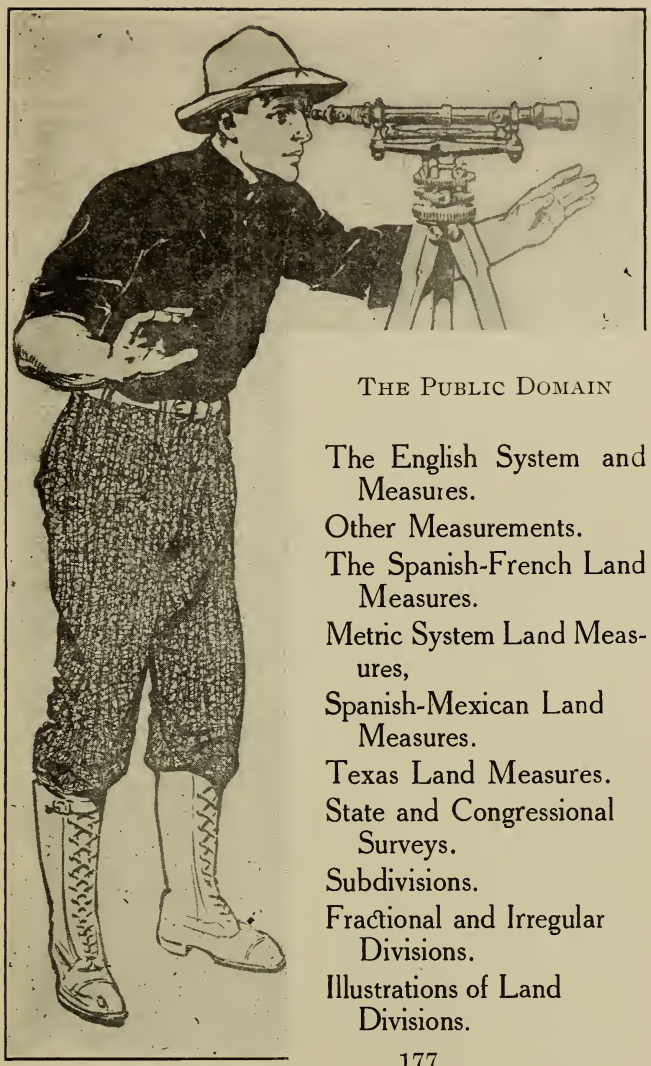
It is almost universally known that the removal of the excess water from agricultural lands is desirable and that the fundamental requirements for its removal are both simple and easily understood. Therefore, no discussion of the subject seems profitable except to mention the fact that, while surface drainage is sometimes the only drainage that is practical, it is never quite as satisfactory or effective as is the plan of underground drainage which can almost always be used in supplying the local and lateral needs. This plan of underground drainage has many advantages; it is more effective in collecting and carrying the water, it does not interfere with the plowing and cultivating of the land, and its use also leaves the sub-soil in a more friable and, hence, more productive condition.

This last change does not occur quickly but it is gradually accomplished by the water percolating through the ground to the tile and thus it often makes the higher land softer and better supplied with the necessary quantity of moisture than are the lower lying and naturally wetter lands.

A tendency to surface erosion can also be relieved and sometimes entirely overcome by supplying the land with sufficient underground drainage, as this will relieve the surface from a heavy accumulation of water and provide for its passing away below instead of upon the surface of the land. Lands that are eroded will always be injured and their loan value may be wholly destroyed by continued erosion. It is

therefore evident that no subject is of more importance than is the one of proper drainage:—this is true whether it be the drainage of city property, or the drainage of agricultural sections.

The application of some knowledge of this subject is also of use in considering *mortgage loan values,* for proper drainage is always conducive to better health and to better living conditions, for the occupants of either class of property as well as to greater productiveness of the soil.



THE PUBLIC DOMAIN

The English System and Measures.

Other Measurements.

The Spanish-French Land Measures.

Metric System Land Measures,

Spanish-Mexican Land Measures.

Texas Land Measures.

State and Congressional Surveys.

Subdivisions.

Fractional and Irregular Divisions.

Illustrations of Land Divisions.

XXIX

THE PUBLIC DOMAIN

The importance to the investor of accurate legal descriptions cannot be over-estimated, for the title to land carries with it the title to the buildings and all else which may belong to it; and its legal description thus definitely fixes the location of the entire security.

Although the physical value of the ground may only constitute a small part of the total value of the whole property, in every instance it is, in a sense, the most important part of the security offered. Each separate parcel of land has, or should have, a legal description which will clearly and positively identify it and set it apart from all other lands, and which, in connection with the general surveys, will show, at least approximately, its shape and area. This is usually the case, but in practice it is found that absolute accuracy in these matters is not always possible except by re-surveys and under certain circumstances is not possible even by this means.

It is very important then that those persons who are concerned with the selection of Real Estate securities should be fully able to understand land descriptions, although it is unfortunately true that to many persons such descriptions are practically meaningless, and that attorneys who profess to examine titles sometimes take it for granted that the description recited

in the abstract properly locates and describes the land intended to be conveyed or mortgaged, when a careful examination of the description might show it to be a seriously faulty one.

Differences in land divisions, descriptions and measurements will be encountered in various sections of the country, differences that are largely due to the fact that various parts of what is now the United States were originally under the sovereignty of different states and countries which were rather liberal in the matter of land grants and whose systems of land measurements and divisions were very dissimilar.

When these titles go back to the original grants, the differences in them often prove to be somewhat confusing to those persons whose experience has been confined to the land descriptions in use in a different part of the country. If the investor's business is confined to a particular locality it is perhaps sufficient for his needs that his knowledge of land descriptions should also be confined to that locality. It is not intended, however, that these comments shall be limited to any single section of territory but that they shall be of use, if possible, to investors in any section, and an effort will be made to outline the principal facts, for unless such facts concerning any land under consideration are known and understood neither its area nor its location can be positively determined nor can its title be properly examined. A general knowledge of the public divisions of lands, of the surveys by which their location has been established, of the measurement by which their dimensions are known and also of the variations and exceptions to general

rules which are likely to be found in the territory under consideration, is always necessary to good work on the part of either the inspector or the title attorney; and for this reason a brief outline of the history of these matters, together with the tables which show the various measurements used, may perhaps afford the best foundation for a discussion of the subject.

In an early day Florida was a Spanish possession; England held dominion over the territory to the north of Florida as far west as the Mississippi River, north to the Ohio and then east of the Alleghanies to the French settlements on the St. Lawrence. France laid claim to Louisiana (except during the interval between 1760 and 1800 when it was under the dominion of Spain). This was then a great fan-shaped territory, broadening to the north and extending from the settlements at the mouth of the Mississippi and covering about one and a quarter millions of square miles of the area now within the boundaries of the United States. At this time another vast territory in the southwest, covering nearly a million square miles, including Texas, belonging to Spain and afterwards to Mexico, while to the north of this and west of the Rocky Mountains yet another quarter of a million square miles, which was known as the Oregon territory, was in dispute between Russia, France and England, and later between England and the United States.

By the Revolutionary War the Colonies gained possession of the territory then held by England east of the Mississippi River and south of the present boundary between Canada and the United States; this also

included what was at that time called the "Territory Northwest of the Ohio" which England had previously gained from France.

The territorial lands thus gained by the Colonies from England were not at first held in common by them, but certain portions were claimed by the various Colonies by reason of the military services of their colonial troops, Virginia and New York each claiming the whole, and Massachusetts and Connecticut parts of the territory northwest of the Ohio; Massachusetts laid claim to that territory which is now the State of Maine, Georgia to that lying to the west of it as far as the Mississippi River, South Carolina to a strip to the north of this, and New York and New Hampshire claimed what is now the State of Vermont. Tennessee was a part of the original State of North Carolina, and West Virginia and Kentucky were parts of the original State of Virginia.

In the year 1803 the United States purchased the Louisiana territory from France; in 1819 it purchased Florida from Spain; in 1835 Texas achieved her independence from Mexico, and in 1845 was annexed to the United States; in 1846 England finally gave up her claims to the Oregon territory lying south of the 49th degree of latitude (the present international boundary), and by the treaty of Guadalupe Hidalgo in 1848 and the Gadsden purchase in 1854, Mexico ceded to the United States the territory embraced within the present limits of California, Arizona, Nevada and Utah and parts of New Mexico, Colorado and Wyoming; and thus the present boundaries of the United States were formed.

Meanwhile, soon after the formation of our general government, the Colonies which came into the Union as landed proprietors had ceded their outside holdings (except about six thousand square miles claimed by Connecticut in what is now the northeastern part of Ohio and which has since been known as the Western Reserve) to the General Government, and in 1784 a system of Square Survey, which had been invented by Thomas Jefferson, was favorably reported to the Congress and was adopted and put into use but was not finally perfected until about the year 1820.

This system has since been used in the public divisions of all of the lands belonging to the United States which had not been previously surveyed according to some other plan, but as it has always been the policy of governments to reward their soldiers by land grants and to encourage settlements in their dominions, especially at those places which for commercial or defensive reasons were regarded as important, and as lands were sold and assigned to many persons and in many places in pursuance of this policy, it has followed that such land ownerships not only cover the territory embraced in the original States but that they also exist in many other different and widely separated parts of the country, and the title to these lands having emanated from the then existing government under whose dominion they lay, they were marked out and described according to the systems of survey and measurement then in use by that government. The present system of government surveys has not been made to apply to these lands except as to some small portions and to Indian Grants where it

has sometimes been made to overlay the original surveys, but the Government recognizes and protects the titles which have come through other sovereignties, although many of such lands are illy defined and bounded only by natural objects. These land divisions are very generally of irregular shapes and at best very little preference seems to have been given to the cardinal points of the compass in establishing their lines. Among the States, however, Georgia was an exception to this rule, for in portions of this State a system of square land divisions had been in use for about fifty years prior to the adoption by the general government of what we call the "Congressional Survey," the entire State being finally covered by such State Surveys except in the territory lying to the east of the Oconee River where the lands were mostly deeded in regular shaped headrights and Military Grants.

Texas may also be mentioned as an exception inasmuch as immense tracts which had been granted to railroads and many large private claims were surveyed by the State in mile square sections, corresponding to that extent to the Government plan; they were not based upon the township and range plan, however, and are described by number in blocks.

The above historical outline is, of course, a very meager one, but it should be sufficient to indicate to the investigator the differences which may exist in different sections and the importance of a thorough examination into such matters in any territory with which he is not already familiar, for as pointed out in Warvelle on Abstracts: "Upon confirmation it is

necessary to have these titles traced out and fixed by survey or re-survey, according to the peculiarities of the system of the government from which they originated, and incidentally they must frequently be referred to in subsequent conveyances and subdivisions.''

XXX

THE ENGLISH SYSTEM AND MEASURES

The linear measures which are in by far the most general use in the United States conform to the standard established by the English government. In fact, this system is the one which has been used over approximately nine-tenths of the total area of the country, although Texas with its two hundred and sixty-five thousand square miles of territory and also many other comparatively small allotments and grants located at various places from the eastern coast of Florida to the western coast of California are measured according to the Spanish-Mexican system, and many others scattered over the territory which was once under the dominion of France are measured according to the old French system.

It is evident then that he who is charged with the investigation of lands or land titles may, if his territory is extensive, be brought into contact with the peculiarities of systems other than that of England and the United States.

An understanding of the system of measurements by which any lands have been surveyed or set apart is, of course, absolutely necessary as a basis for any intelligent idea of such divisions, and a ready familiarity with the measures of extension and land surfaces in use in the territory where loans are to be

considered is therefore a matter of primary importance.

In measuring lines and distances, surveyors use what is known as a Gunter's chain; this consists of a metal chain four rods or sixty-six feet in length, made up of one hundred links, each of which is seven and ninety-two hundredths inches in length.

Superficial or square measures have naturally developed from these measures of extension, and as they serve the purpose of defining the areas and contents of land without the necessity of making calculations to determine them, a knowledge of superficial measures is of at least as much importance and is perhaps more frequently of service in land investigations than is the knowledge of the linear measurements upon which they are based.

NOTE

Although the fact may be of little or no practical use to the investigator of lands or land titles, it is nevertheless of interest to know that while measurements were anciently based upon such indefinite things as hand-breadths, spans and paces, they have since been very generally standardized upon what are believed to be definite and unchangeable facts.

For instance, the French meter, which is the unit of the present French system and equals 39.37 English inches, is supposed to be one ten-millionth part of the distance from the equator to either pole, and the nautical mile, which contains 6086.07 feet and equals 1.152664 English miles, is based upon one minute of longitude at the equator.

The English standard, which has been adopted by Parliament and is recognized by law in the United

States, is based upon the length of a pendulum which will oscillate once in each exact second of time by reason of the attraction of gravitation, which is constant.

A brass pendulum at 62½ degrees temperature which will do this was found to measure 39.1393 inches by the inch measurement then in use (which is said to have been anciently based upon the length of three barley-corns placed end to end) and this pendulum was adopted as the standard of measurements, twelve of these 39.1393 parts being declared to be one foot and thirty-six of them to be an imperial yard.

In practice it is becoming more common to reduce all linear land measurements to feet and inches and all superficial land measures to square feet and inches in city lots and to acres and hundredths in rural property, by the following tables of English linear and square measures which are still in general use in defining distances and in computing the area and contents of land:

TABLE OF LINEAR MEASURE.

12 inches (in.)	make 1 foot, marked.....ft.
3 feet	" 1 yard, " .....yd.
5½ yds., or 16½ ft.,	" 1 rod, " .....rd.
40 rods	" 1 furlong, " .....fur.
8 furlongs, or 320 rods,	" 1 statute mile, marked .....mi.

UNIT EQUIVALENTS

1 ft.=12 in.
1 yd.=3 ft.=36 in.
1 rd.=5½ yds.=16½ ft.=198 in.
1 fur.=40 rods.=220 yds.=660 ft.=7920 in.
1 mi.=8 fur.=320 rds.=1760 yds.=5280 ft.=63360 in.

TABLE OF SQUARE MEASURE

144 square inches (sq. in.)	make 1 square foot, marked.....sq. ft.
9 square feet	" 1 square yard, " .....sq. yd.
30¼ square yards	" 1 square rod, " ..... sq. rd.
40 square rods	" 1 rood, " .....R.
4 roods	" 1 acre, " .....A.
640 acres	" 1 square mile, " .....sq. mi.

UNIT EQUIVALENTS

						sq. ft.	sq. in.
					sq. yd.	1 =	144
				sq. rd. =	1 =	9 =	1296
			R.	1 =	30¼ =	272¼ =	39204
		A.	1 =	40 =	1210 =	10890 =	1568160
	sq. mi.	1 =	4 =	160 =	4840 =	43560 =	6272640
	1 =	640 =	2560 =	102400 =	3097600 =	27878400 =	4014489600

TABLE OF SURVEYOR'S LINEAR MEASURE.

7.92	inches (in.)	make 1 link	l.
25	links	" 1 rod	rd.
100	links, or 4 rods, or 66 feet,	" 1 chain	ch.
80	chains	" 1 mile	mi.

UNIT EQUIVALENTS

1 link = 7.92 inches
1 rod = 25 links = 198 inches
1 chain = 4 rods = 100 links = 792 inches
1 mile = 80 chains = 320 rods = 8000 links = 63360 inches

SQUARES

1 acre = sq. of 208.71 ft. = 43560 sq. ft.
1 acre = sq. of 69.57 yds. = 4840 sq. yds.
1 acre = sq. of 12.68 rds. = 160 sq. rds.

TABLE OF SURVEYOR'S SQUARE MEASURE

625 square links (sq. l.)	make 1 sq. rod or pole ..... P.
16 poles	" 1 square chain ..... sq. ch.
10 square chains	" 1 acre ..... A.
640 acres	" 1 square mile ..... sq. mi.
36 square miles (6 mi. square)	" 1 township ..... Tp.

UNIT EQUIVALENTS

				P.	sq. l.
			sq. ch.	1 =	625
		A.	1 =	16 =	1000
	sq. mi.	1 =	10 =	160 =	100000
Tp.	1 =	640 =	6400 =	102400 =	64000000
1 =	36 =	23040 =	230400 =	3686400 =	2304000000

XXXI

OTHER MEASUREMENTS

SPANISH-FRENCH LAND MEASURES.

(Facts and Tables taken from Warvelle on Abstracts).

During the administration of the Spanish-French governors, in the province of Louisiana, the granting power of the royal domain was freely exercised, and the grants so made lie at the foundation of most of the early titles in the States subsequently formed from that province.

The surveys of these grants are found in many places wrought in with our public surveys, presenting, as it were, curious mosaic irregularities in striking contrast with the simple rectangular system adopted by the national government. They illustrate, in a forcible manner, the peculiar agrarian systems of the governments which preceded us, in the diversified, irregular forms of grants, from urban in-lots, and out-lots, rural tracts of inconsiderable dimensions, and from thence increasing in extent to 7,056 arpents or a league square, the "arpent" of Paris being the standard of provincial measurement.

The following is a comparative statement adopted by the surveyor general's office at St. Louis, Mo., of the land measures of the United States, and the French measures formerly used in the province of Louisiana:

OLD FRENCH LINEAR MEASURE

French	United States Chains.	Links.
1 perche equals	0.	29.166
10 perche equals one arpent lineal or	2.	91.666
10 arpents "	29.	16.666
100 " "	291.	66.666
1000 " "	2916.	66.666

The side of a league square equals 84 arpents equal 245 chains. The side of a mile square equals 27 arpents equal 80 chains.

1 perche=about 1 rd. 4.166 links or 19.25 ft.

1 arpent=about 11 rd. 16.66 links or 192.5 ft.

OLD FRENCH SUPERFICIAL MEASURE

French Arpents.	United States Acres.
1 equivalent to	0.85 07
2	1.70 14
3	2.55 21
4	3.40 28
5	4.25 35
6	5.10 42
7	5.95 49
8	6.80 56
9	7.65 63
10	8.50 69
100	85.06 94
1,000	850.69 44
10,000	8,506.94 44

OLD FRENCH SUPERFICIAL MEASURE
(Continued).

Arpents.		Perches.		Acres.
1.	and	17.551	equal	1.
2.		35.102		2.
3.		52.653		3
4.		70.204		4.
5.		87.755		5.
7.		05.306		6.
8.		22.857		7.
9.		40.804		8.
10.		57.959		9.
11.		75.510		10.
117.		55.102		100.
1,175.		51.020		1,000.
11,755.		10.204		10,000.

A square league contains 7,056 arpents or 6,002.50 acres.

A square mile contains 725 arpents 32.64 perches or 640 A.

THE METRIC SYSTEM OF LAND MEASURES.

Consideration of the metric system (sometimes called the French system) is not strictly applicable to this discussion, for the reason that it was not in use prior to the time when the United States acquired sovereignty over the lands formerly owned by France, but tables of it are entered here for purposes of comparison and for the reason that its use was legalized by act of Congress in 1866 and that it is actually in

use by the United States coast survey and will probably be more extensively used for other purposes in the future than it is at present.

The meter is supposed to be one ten-millionth part of the distance from the equator to either pole, measured on the earth's surface at sea level. It is about 39.37 inches and is the primary unit of length.

The square meter is the unit of surface measures and is called a *centiare;* it is about 10¾ square feet, or 1 1/5 square yards.

The *Are* (Ar) is a square, each of whose sides is ten meters in length and is the unit of land measures.

TABLE OF LINEAR MEASUREMENTS.

10 millimeters=1 centimeter=0.3937 inches.
10 centimeters=1 decimeter=3.937 inches.
10 decimeters=1 *Meter*=3 ft. 3.37 inches.
10 meters=1 dekameter=32 ft. 7.7 in., or nearly 2 rods.
10 dekameters=1 hectometer=328 ft. 1 in. or nearly 20 rods.
10 hectometers=1 kilometer=0.62137 miles.
10 kilometers=1 myriameter=6.2137 miles.

TABLE OF SQUARE SURFACE MEASURES

100 square millimeters=1 sq. centimeter=0.155 sq. inches.
100 square centimeters=1 sq. decimeter=15.5 sq. inches.
100 square decimeters=1 sq. meter or centiare.

1 centiare=1550 sq. in.=about 10½ sq. ft.= 1.196 sq. yds.

100 centiares=1 are (ar)=119.6 sq. yds.=nearly 4 sq. rds.

100 ares=1 hectare=2.471 acres.

SPANISH-MEXICAN LAND MEASURES

Scattered over this district (formerly belonging to Mexico) there exist many ancient Spanish-Mexican titles, municipal and rural, which, under the terms of the treaties, are recognized and protected by the government. These claims and grants were made for agriculture, mining, stock-raising, and colonization, and in all sizes from a village lot to a million-acre tract.

The Surveyor General of California, in a report made in 1851, states that all grants in California, made either by the Spanish government, or that of Mexico, refer to the "vara" of Mexico as the measure of length, and that by common consent, in California, that measure is considered as exactly equivalent to thirty-three American inches. It would seem that another length is given to the "vara" by Mr. Alexander, who states its length to be equal to 92.741 per cent of the American yard (this being the approximate length of the Texan vara, or 33 1/3 inches). In practice, however, the General Land Office has sanctioned the recognition, in California, of the Mexican vara as being equivalent to thirty-three American inches.

The Mexican vara is the unit of all the measures of length, the pattern and size of which are taken from

the Castilian vara of the mark of Burgos, and is the legal vara used in the Mexican republic. Fifty Mexican varas make a measure which is called cordel, which instrument is used in measuring lands.

The legal league contains 100 cordels, or 5,000 varas, which is found by mulitiplying by 100 the 50 varas contained in a cordel. The league is divided into two halves and four quarters, this being the only division made of it. Half a league contains 2,500 varas, and a quarter of a league 1,250 varas. Anciently, the Mexican league was divided into three miles, the mile into a thousand paces of Solomon, and one of these paces into five-thirds of a Mexican vara, consequently the league had 3,000 paces of Solomon. This division is recognized in legal affairs, but has been a very long time in disuse—the same as the pace of Solomon, which in those days was called vara, and was used for measuring lands. The mark was equivalent to two varas and seven-eighths—that is, eight marks containing twenty-three varas—and was used for measuring lands.

It will be observed that the Texan vara is slightly longer than the standard recognized in California and adopted by the General Land Office.

The following is a list of land measures adopted by the Mexican government (with free translation and approximate equivalents in hektares and acres):

1 caballeria=about 42.8 hektares or 107.94 acres.

1 hektare=2.47 acres.

Hacienda (plantation), 25,000 by 5,000 varas or

125,000,000 sq. vrs.=8778+ hektares=205.1+ caballerias=about 22,000 acres.

Sitio de ganado mayor (or league) (cow ranch, pasture land), 5,000 by 5,000 varas or 25,000,000 sq. vrs.=1,755.61+ hektares=41+ caballerias=4,428.4+ acres.

Sitio de ganado menor (sheep ranch), 3,333 1/3 by 3,333 1/3 varas or 11,111,111 1/9 sq. vrs.=780.27+ hektares= 18.23+ caballerias=1,968+ acres.

Criadero de ganado mayor (cattle breeding ranch), 2,500 by 2.500 varas or 6,250,000 sq. vrs.=448 hektares=10.25+ caballerias=1,107+ acres.

Criadero de ganado menor (sheep breeding ranch), 1,666 2/3 by 1,666 2/3 varas or 2,777,777 4/9 sq. vrs.=199.13+ hektares=4.55+ caballerias=492+ acres.

Labor (field, arable land), 1,000 by 1,000 varas or 1,000,000 sq. vrs.=70.22+ hektares=1.64+ caballerias= 177⅛ acres.

Fundo legal para pueblo (legal town site), 1,200 by 1,200 varas or 1,440,000 sq. vrs.=101.12+ hektares=2.36+ caballerias=255+ acres.

Caballeria de tierra (knighthold of land), 1,104 by 552 varas or 609,408 sq. vrs.=43.7+ hektares=1 caballeria=107.94+ acres.

Media caballeria (half a knighthold of land), 552 by 552 varas or 304,704 sq. vrs.=21.8+ hektares=.5 caballerias=53.97+acres.

Cuarto caballeria *or* suerte de tierra (quarter of a knighthold of land), 552 by 276 varas or 152,532 sq. vrs.=10.9+ hektares=.25 caballerias=26.98+ acres.

Fanega sembradura de maiz (sowing ground for one fanega of corn), 276 by 184 varas or 50,784 sq. vrs.=3.65+ hektares=.08 1/3 caballerias=9 acres.

Solar para casa, moulin o venta (site for house, mill, or inn), 50 by 50 varas or 2,500 sq. vrs.=.175561 hektares=.004 caballerias=.44 acres.

TEXAS LAND MEASURE

1 Vara=33 1/3 in. 5.94 Varas=1 rd. 1,900.8 Varas=1 mi.

Sq. Vrs.		Vrs. Sq.			
26,000,000	or	5,099	= 1 league & 1 labor	= 4,605.5	A.
1,000,000	"	1,000	= 1 labor	= 177.136	A.
25,000,000	"	5,000	= 1 league	= 4,428.4	A.
12,500,000	"	3,535.5	= ½ league	= 2,214 2	A.
8,333,333	"	2,886.7	= 1/3 league	= 1,476.13	A.
6,250,000	"	2,500	= ¼ league	= 1,107.1	A.
7,225,600	"	2,688	= 2 sections	= 1,280.	A.
5,419,200	"	2,328	= 1½ sections	= 960	A.
3,612,000	"	1,900.8	= 1 section	= 640.	A.
1,806,400	"	1,344	= ½ section	= 320.	A.
903,200	"	950.4	= ¼ section	= 160.	A.
451,600	"	672	= ⅛ section	= 80.	A.
225,800	"	475	= 1/16 section	= 40.	A.
5,645.376	"	75.135 .	= 4,840 square rods	= 1.	A.

The square of 59.4 varas = the square of 10 rods = ⅝ acre.
The square of 118.8 varas = the square of 20 rods = 2½ acres.
The square of 237.6 varas = the square of 40 rods = 10 acres.

To find the number of acres in any number of square varas, multiply the latter by 177⅛ and cut off six decimals.

To reduce square acres to square varas multiply by 5,645 1/3.

XXXII

STATE AND CONGRESSIONAL SURVEYS

The United States contains something more than three million square miles of territory; roughly speaking, thirteen and one-half per cent of this consists of grants, donations, head-rights, and private claims derived from the sovereignty of England, or from the various States. These parcels of land are principally confined within the limits of the original States and are of little uniformity either in size or shape, and their boundaries are usually defined by natural objects or by "neighborhood" descriptions.

Ten per cent of the total area consists of lands, the divisions and legal descriptions of which are either wholly or in part those of the Spanish-French or Spanish-Mexican territory to which they originally belonged. These lands are found in many States and, as previously stated, in widely separated localities, although by far the greater portion are in one body which covers the entire State of Texas.

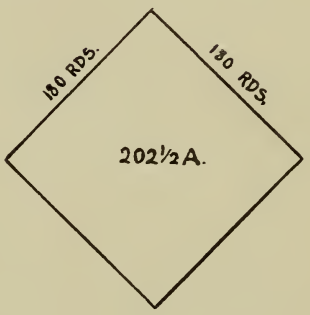
This State, which was formerly a part of Mexico, has adopted a plan of rectangular surveys for some of its western and northwestern territory. It has, however, retained the Spanish system of measurements by varas instead of adopting the English system which has been adopted by all of the other States and by the United States government. Under this plan the

lands are divided into what are called sections and these are grouped into blocks. These sections contain 3,612,800 square varas each (640 acres) and are usually square in form, each side being 1900.8 varas (one mile) in length and lying square with the cardinal points of the compass.

About one and one-half per cent of the total area of the United States is included in the State surveys of Georgia, which are regular in form although not uniform in size, and cover the entire State with the exception of the lands lying north of the Altamaha River and east of the Oconee River, which lands are included in the above mentioned thirteen and one-half per cent in which no regular State or Government surveys have been made. In this State soon after the year 1733 something near 220,000 acres were divided into regularly shaped tracts of 50 acres each and as this was the earliest regular division of land by public authority, the Georgia state surveys are entitled to especial mention as probably having first called attention to the advantages of some such system and led eventually to the adoption of our present congressional survey. There are now five different plans of divisions by public survey in this State and in each of these sections the land is divided into districts which have designations by numbers as Land or Militia districts. Each of these districts is again divided into lots which are numbered with uniformity as to that district but with little uniformity as between the different districts—that is to say, that the lots may be numbered from north to south in one district and from east to west in an adjoining district.

Across the north end of the State there are several counties comprising what was formerly known as the Cherokee Strip where the survey has been made of lots lying square with the compass and measuring 160 rods on each side; they contain 160 acres each; and in a few counties in this district (chiefly in Bartow County), where there were supposed to be gold deposits, lands were surveyed into lots lying square with the compass and measuring 80 rods on each side; they contain 40 acres each.

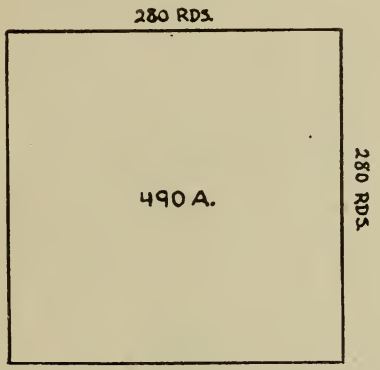
Extending westward from the Oconee River to the Ocmulgee River and in some places to the Flint River the land has been surveyed into lots lying with their corners to the cardinal points of the compass and measuring 180 rods on each side; they contain 202½ acres each.



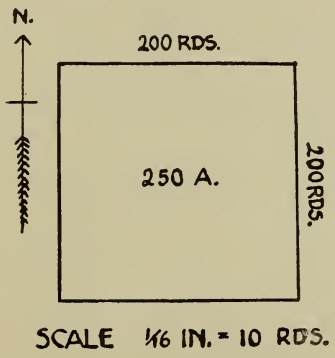
The southern portion of the State is surveyed into lots lying square with the compass and measuring 280 rods on each side; they contain 490 acres each.

Scale 1/16 in.=10 rds.

The remainder of the State has been surveyed into lots lying square with the compass and measuring 200 rods on each side; they contain 250 acres each.



Approximately seventy per cent of the entire area of the United States has been surveyed according to the government system of rectangular surveys, and



an additional five per cent is embraced within the limits of the territory that is subject to this survey,

but which lies chiefly in the mountainous regions of the West and has not been surveyed.

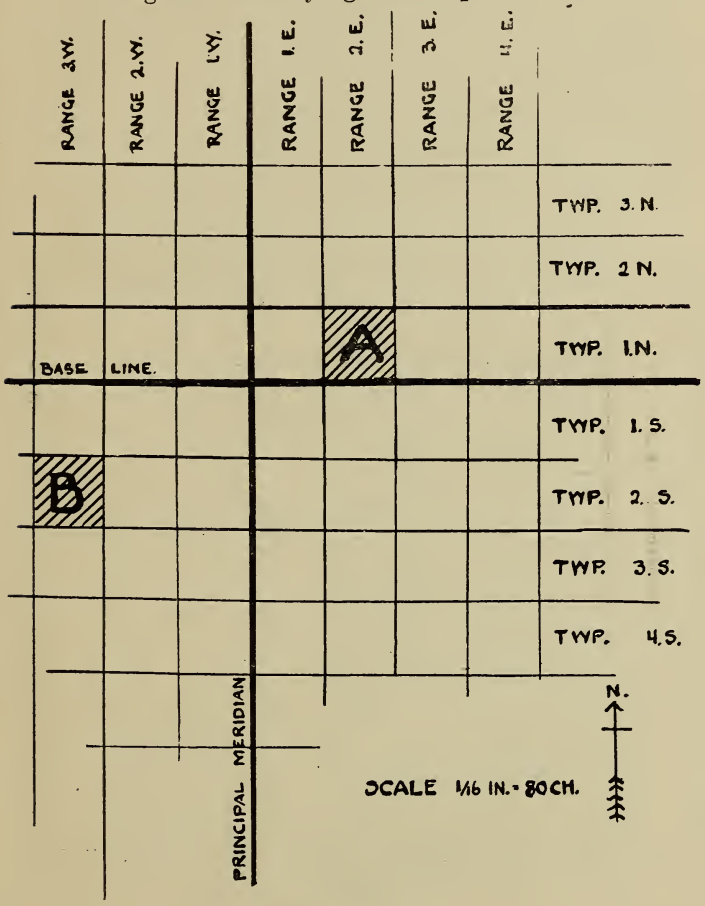
This government system of public land surveys, to which seventy-five per cent of the total area is subject, contemplates square divisions of six miles on each side called townships, each of which contains as nearly as may be 23,040 acres. These townships are usually spoken of as "congressional townships" to distinguish them from the Civil townships into which the counties of many of the States are divided for the purpose of local government, and are divided into 36 sections, each supposed to be one mile square and to contain 640 acres.

The Section is the unit of this system and, although its subdivision is contemplated, such subdivision by actual survey and monuments is not always required by law as a part of the government system.

The framework of this system consists of base lines which are run on true parallels of latitude, and longitudinal lines which are called principal meridians. each of which is designated by a name or number. Parallel to the base lines (of which there are twenty-three) other lines are run which are called standard parallels and correction lines, and lines are also run parallel to the principal meridians (of which there are thirty). These are called guide meridians or auxiliary meridians. These lines are necessarily of more frequent occurrence in mountainous than in more level country, but always, of course, they form squares or parallelograms which are then surveyed into townships. These townships are designated by numbers north or south from the base line as "town-

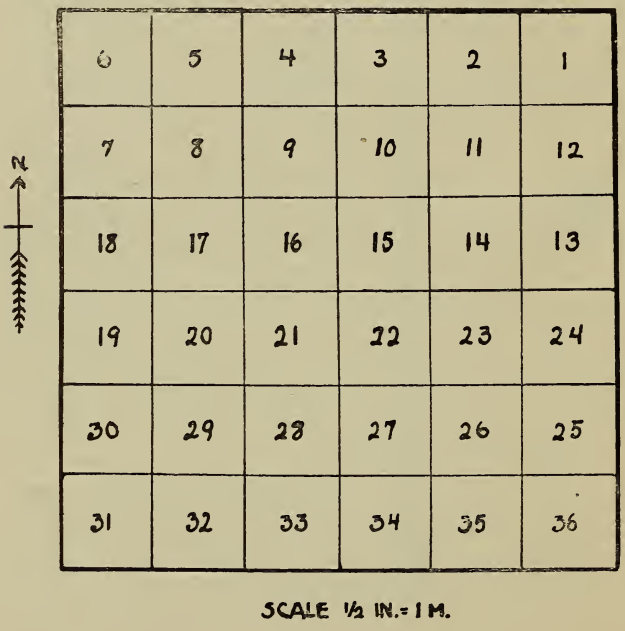
ships," and by numbers east or west from the controlling meridian line as "ranges."

The following diagram will show this system of numbering and identifying townships:



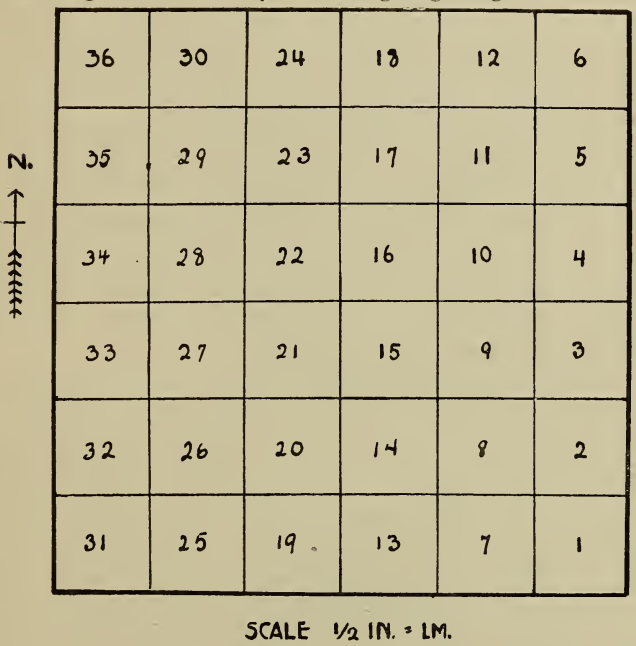
Any number of contiguous townships lying to the east or west of one another are given "township" numbers, and any number of contiguous townships lying to the north or south of one another are given "range" numbers—to illustrate, the shaded township marked "A" would be designated as Township One North, Range Two East, and the shaded township marked "B" would be designated as Township Two South, Range Three West. By this system any duplication is impossible if the names or numbers of the controlling base and meridian lines are also given.

The sections into which each congressional township



is divided are, with a few exceptions, numbered from one to thirty-six, commencing with the one in the northeast angle of the township and extending west and east alternately to section thirty-six in the south-

There are numerous exceptions to this rule, however, some of which are due to the impossibility of always making the rule conform to the conditions and others to the fact that some of the surveys were made before the system was perfected; an important example of the latter class of exceptions occurs in the territory east of the Great Miami River and west of east angle as shown by the foregoing diagram:



the military grants and head-rights previously surveyed in what is now the State of Ohio; in this district the townships are laid out and their locations designated as controlled by certain base and meridian lines, but the sections are numbered as follows, beginning at the southeast corner of the township:

A knowledge of such variations from the general rules which may prevail in the territory where his loans are to be made is of importance to the investor, for without it he may find himself at a loss when investigating lands or land titles; for example—Sections 11, 21, and 31 are the only sections whose location in the township is the same under either of the above systems of numbering, while Section 36 is in the southeast angle in one case and in the northwest angle in the other, and a description of the southeast quarter of Section One and the northeast quarter of Section twelve in a given township in a district where the regular system of numbering had been used would show contiguous quarter sections, while the same sectional description in the district where this exception exists would show two separate quarter sections located six miles from one another.

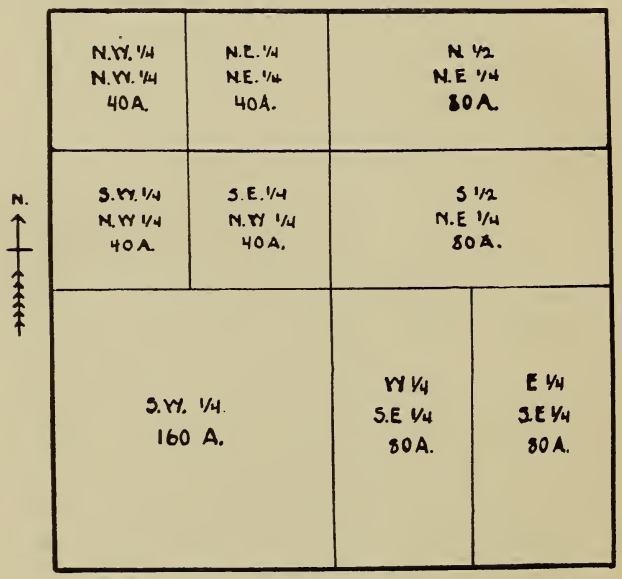
Another matter which may be mentioned in this connection, which is a rule however instead of an exception, is that of "School Lands"; since as early as the year 1785 it has been the fixed policy of the government to set apart certain lands for the support and encouragement of education, and it has been its practice to select one or two sections in each township for this purpose (usually Section 16 in the States east of the Missouri River and Sections 16 and 36 in the

newer States lying west of these), and it has been made a part of the agreement of each State on its admission into the Union that the proceeds of these sections or other lands known as "lieu" lands shall be devoted to the support of the public schools.

XXXIII

SUB-DIVISIONS

Under our government system of public surveys certain subdivisions of sections are defined by law, but, so far as the actual government survey is applied to subdivisions of quarter sections, they are designated by imaginary lines only; the shape and area of these subdivisions (when regular) are shown by the following diagram:



It will be apparent that any rectangular system of survey will lend itself readily to a similar system of subdivision and that if the original survey is a public one of record, the legal descriptions of the subdivisions of the various tracts of which it is composed will be simplified and each will indicate on its face the approximate shape and contents of the subdivision. The above plan of subdivision is therefore very generally used in all such cases, whether the survey is a public or a private one. (In cases where the sides of the tracts do not conform to the cardinal points of the compass there is naturally a variation in the description used from that of the one used in the governmental plan—for instance, the halves and quarters of the 202½ acre lots of central Georgia are described as the northwest one-half of the east quarter, etc., of the particular lot in which it is located.)

There are, however, seldom any other public subdivisions made of farming lands except those which are made of the mile square survey above shown. In cities and towns it is of course necessary that much smaller divisions of the lands should be made and these are known as "additions," "divisions," "subdivisions," "blocks" and "lots," which are projected upon a "plat" and are identified by names and numbers; the plats of these additions with their minute subdivisions when accepted and recorded under the laws of the State where they are located become a legal record, showing the identity of the property in question, its location, shape and dimensions, and the former description by section and township is then

seldom used except for the purpose of additional certainty in locating the property.

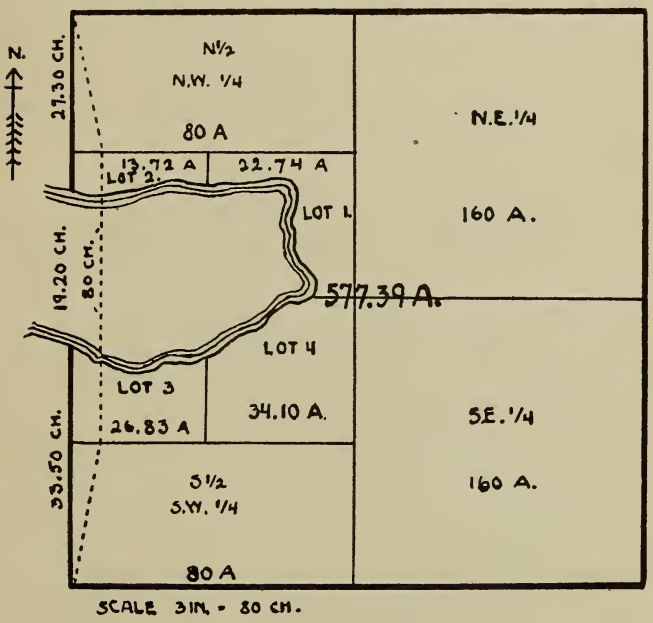
It is evident, therefore, that in city investigations the local official plat is of primary importance for, although there is usually a much greater regularity and uniformity of detail in the plat of a city or town which has been established subsequent to a more general public survey of the lands upon which it is located, than there is in that of one which had its beginnings along the windings of a water course or at a crossing of trails, there are in no case any general rules which are of much value in such investigations, for State laws and City ordinances govern these matters and often leave much to the decision of the person who submits the plat of the proposed addition or subdivision.

The use of official township or district plats is also often quite important in rural investigations, and this is the case even in those districts which have been surveyed according to some regular plan, for there are certain unavoidable conditions that necessarily result in numerous variations from the calculated results of any system.

For instance, the contents of each of the several tracts which result from the subdivision of a "congressional" township is presumably of the acreage named on the above diagram, but natural obstacles, such as navigable lakes and rivers, are frequently encountered in these surveys and this results in certain tracts failing to conform in size or shape to the regular plan; such parts of the survey are known as "fractional" sections or quarter sections. The

smaller of these tracts within the boundaries of a section are usually called "lots," but these and also those which have been formed by throwing together fragmentary parts of different sections are sometimes called "plats." All of these are described as fractional parts and are numbered in a consecutive order, usually as nearly as may be in the order in which sections are numbered.

The rule which is followed in such cases is illustrated by the following diagram:



Such a tract of land is, of course, liable to changes by reason of accretions or reductions along its shore line, but "meander lines" are generally run which

practically conform to the sinuosities of the shore and these enable the original contents of the tract to be calculated, although such surveys do not always serve to establish its boundaries (which may be the actual shore line); this estimate of its contents, however, should always be made a part of the description of the land; for example, a proper description of the northwest quarter of the above plat would be the N½ of the NW¼ and Lots 1 and 2 of Fractional Section ——, Township ——, Range——, containing in all 116.46 acres, for without this last clause there would be no indication of its acreage except that it is a less or greater amount than 160 acres and there would be no way of determining the facts except by an examination of the government plats or by a re-survey of the land.

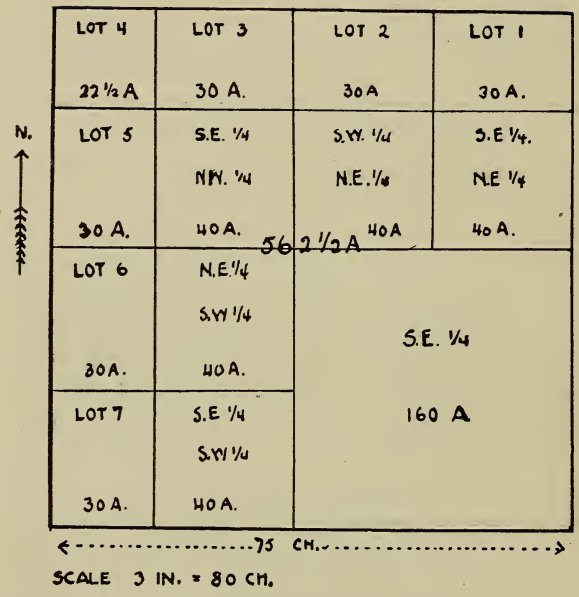
Another insurmountable obstacle to the uniform and regular division and subdivision of lands according to our system of government survey lies in the impossibility of fitting a square plat to a convex surface and this fact is also responsible for many of the fractional sections and quarter sections that are found in all square surveys of large areas.

All initial lines are run by surveys to the north and south, and in the northern hemisphere any extensions of these lines necessarily converge toward the pole and diverge toward the equator; although the effect of this variation from an exact parallel is of slight importance in limited areas and especially in the minute subdivisions of cities and towns (for at the fortieth parallel it only amounts to about ten inches in the mile) when the survey is projected over a large

territory the fact becomes of considerable importance and therefore "correction" lines are run parallel to the base lines and usually at distances of 24 miles apart for the purpose of checking the growth of these inaccuracies before they have become too great and of making a new starting point for the one mile divisions between the north and south lines of the sections.

Owing to this convergence the north line of each township will measure five feet less in length than its south line, but under the rules governing our congressional surveys each section is made to conform as nearly as may be to its proper shape and size, commencing with the southeast section, and the excesses or deficiencies are worked into the northern and western tiers of sections in the township and when possible into the northern or western subdivisions of these fractional sections, thus making Section 6 of each township the one most affected.

As surveyor's lines are preferably run to the north they are less often extended for great distances to the south than to the north of a base line, and variations from the regulation size of townships which are due to the convergence of lines are more often in the form of deficiencies than of excesses. Sometimes these defects are very considerable, but the contents of all fractional sections or lots are always stated in the original field notes. These fractions, when extended into the quarter sections, are usually called "lots" and are numbered from the northeasternmost one in the order shown in the following plat:

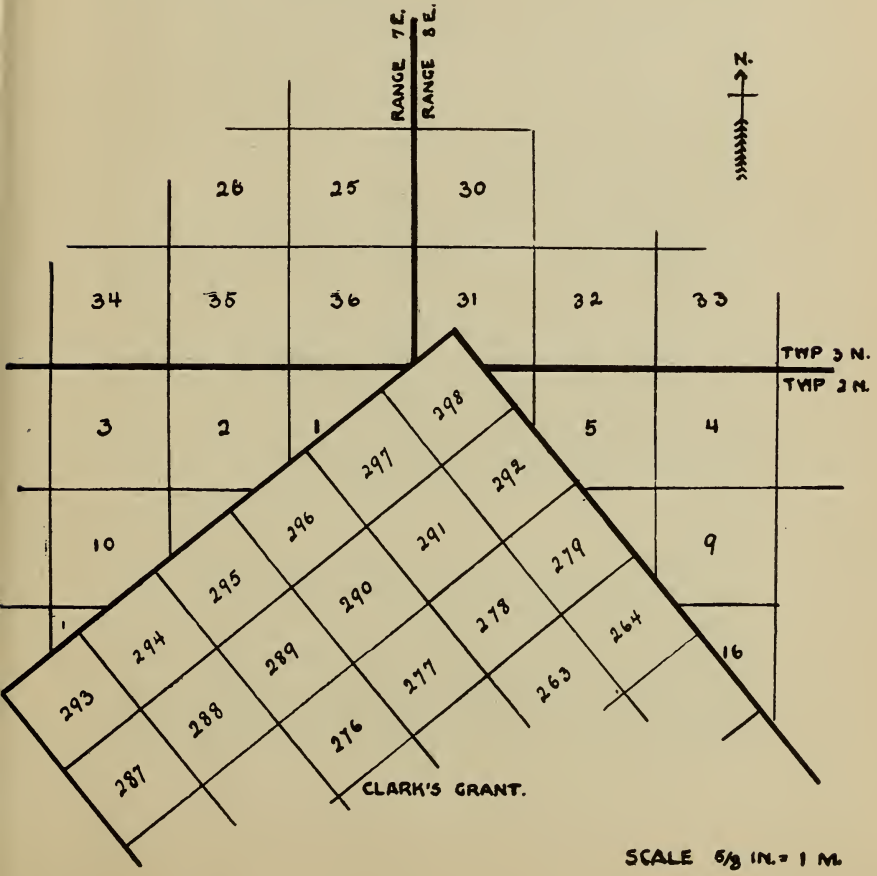


The above diagram is intended to show the ordinary subdivisions of the north and west tier of sections into which the excess or defect of the township, caused by the convergence of meridian lines, etc., has been run, but there are other causes for the existence of fractional sections and many will be found in other locations in the townships, and these are apt to vary even more than the ones above mentioned both in size and angles. These fractions are made by the interference of State boundaries or other lines which have been established prior to the Congressional Survey or by the projection of a survey in one direction meeting the projection in an opposite direction of a survey

made from a different initial line.

In all such cases, however, the government survey and field notes should be referred to, for the terms by which any such "fractionals" are known reveal very little either as to their shape or the quantity of land which they may contain.

The following diagram illustrates this feature by showing how the lines of the Congressional Survey meet the lots at the north point of the previously made grant by the government to George Rogers Clark at the "Falls of the Ohio."



XXXIV

FRACTIONAL AND IRREGULAR DIVISIONS

The congressional survey of our public domain, together with certain other surveys made by the authority of this government and that of other original owners, has covered the greater portion of the entire country with a network of established and recorded lines which form a dependable basis for the legal descriptions in all of the local subdivisions of land in that territory.

The comments already made will perhaps give a fair general idea of these surveys, but there is also a considerable extent of territory, chiefly located in the older States, in which there has been no such system used and in which both public and private subdivisions have been very generally made in irregular shaped tracts, and some additional comment may serve to point out the difficulties which attend upon this lack of system and the resultant faults which frequently occur in the land descriptions in these sections.

During the time when a very large amount of the land in this section of the country was vacant, many grants were made which did not specify the particular location nor the shape of the tract granted, but only the number of acres and the general location of the same; it was, of course, natural for the grantee to

select the best unappropriated land in such section and if the value of an irregular shaped tract or of a spring or water course or other thing was greater to him than was the value of a regular shape to his land, he would often extend his lines to include the desired location.

At a later date when a considerable portion of the vacant land had been appropriated, more specific locations were named in the grants and they were frequently bounded in part by the lands of John Doe and Richard Roe and in part by vacant land.

At a still later date the more desirable lands were very generally taken up except that the lines of the various surveys often failed to include all of the land and the remaining unsold portion was generally of a very irregular shape owing to the fact that the surrounding lines of the tracts did not conform to one another.

These matters are well illustrated by the following copies from the State official records which have been furnished by Major Loring Lee of Sumter, S. C.

The first of these, which is a Lords Proprietors Grant, appears to be slightly defective both as to stated consideration and the date, but has been copied as found of record.

Vol. 38 (Proprietor's Grants No. 1) page 175, Office of Secretary of State for State of South Carolina.

"By virtue of the Power unto me given by the Right Honble the Lords Proprietors I hereby acknowledge to have sold unto John Seabrooke Four hundred

acres of land at the rate of Six per acre for which said land I have received the sum of Ten Pounds Curt money of Carolina reserving to be paid to the Lords Proprietors their heirs and assigns the sum of twelve pence out of each hundred acres as an acknowledgement or Chief rent on the 29th day of September yearly and every year the said John Seabrooke may make choice of the said Four hundred acres of land where the Lords rent is not yet paid nor no Grant passed for the same and where no person hath possessed claimed or Inhabited the same. Always provided that what rent or arrears of rent is due from the land or any part thereof is hereby reserved and must be paid to the Lords or their assigns by such person or persons that did formerly record possess or make use of the same or any Timber thereon. I say sold & received the purchase money aforesaid. Witness my hand this thirtieth day of January 1695/6.

John Archdale

Registered this thirtieth day of January 1695/6

Henry Wigington Dy Reg''

The second paper shows a Royal Grant by Geo. II to Christopher Singleton of a specific tract of land, a part of the adjoining lands being occupied and a part vacant.

''SOUTH — CAROLINA.

GEORGE the Second, by the Grace of God, of Great-Britain, France and Ireland, KING, Defender of the Faith, and fo forth, To All To Whom THESE PRESENTS Shall Come Greeting: KNOW YE, THAT

WE of our fpecial Grace, certain Knowledge and mere Motion, have given and granted, and by thefe Prefents, for us, our heirs and succeffors, DO GIVE AND GRANT unto

Christopher Singleton his

heirs and affigns, a plantation or tract of Three Hundred Acres of Land in Craven County at the high Hills of Wateree River bounded to the North West on Land laid out for Porche to the North East and North West on Land laid out for Matthew Singleton and on all other fides on Vacant Land And hath fuch fhape, form and marks, as appears by a plat thereof, hereunto annexed: Together with all woods, underwoods, timber and timber-trees, lakes, ponds, fifhings, waters, water-courfes, profits, commodities, appurtenances and hereditaments whatfoever, thereunto belonging or in anywife appertaining: Together with privilege of hunting, hawking and fowling in and upon the fame, and all mines and minerals whatfoever; faving and referving, neverthelefs to us, our heirs, and succeffors, all white pine-trees, if any there fhould be found growing thereon: And alfo faving and referving, to us, our heirs and succeffors, one tenth-part of mines of filver and gold only: TO HAVE AND TO HOLD, the faid tract of Three Hundred acres of land and all and fingular other the premifes hereby granted, with the apurtenances, unto the faid

Christopher Singleton his

heirs and affigns for ever, in free and common foccage, he the faid Christopher Singleton his heirs or affigns yielding and paying therefore, unto us, our heirs and succeffors, or to our Receiver-General for the time being, or to his Deputy or Deputies for the

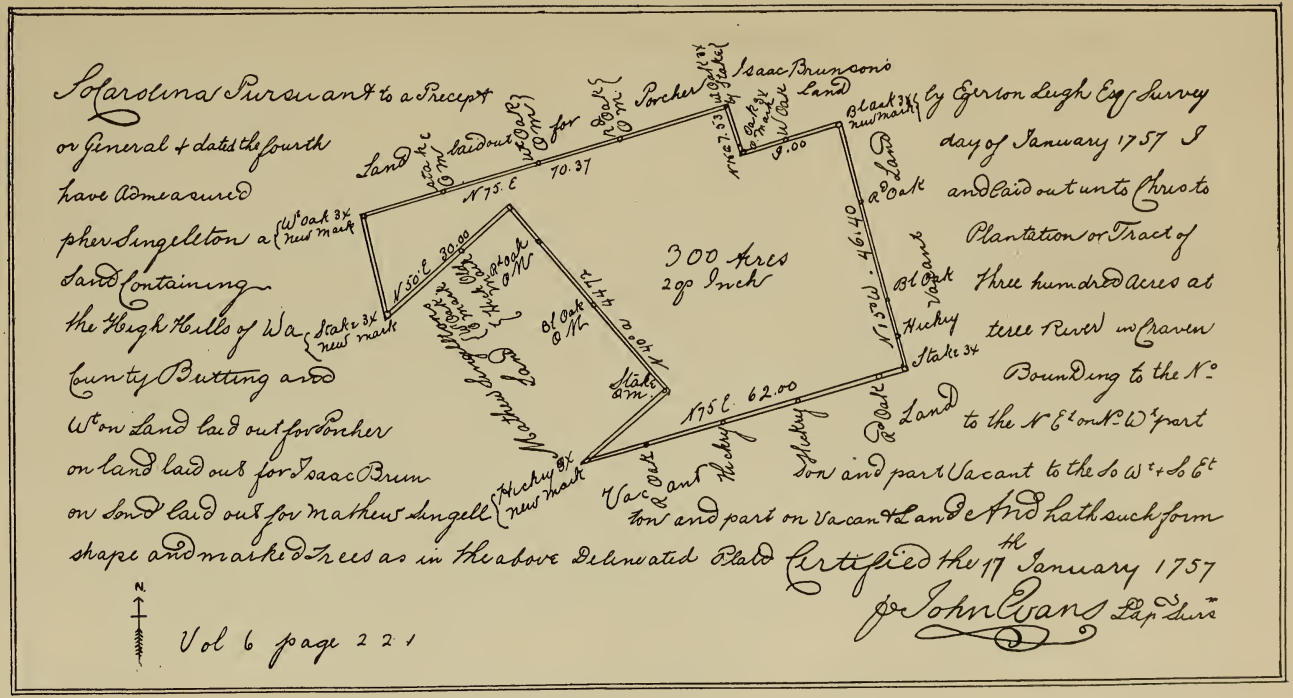
time being, yearly, that is to fay, on every twenty-fifth day of March, at the rate of three fhillings fterling, or four fhillings proclamation money, for every hundred acres, and fo in proportion according to the quantity of acres, contained herein; the same to grow due and be accounted for from the date hereof. Provided, always, and this prefent Grant is upon conditions, nevertheless, that the faid

Christopher Singleton his

heirs and affigns fhall and do within three years next after the date of thefe prefents, clear and cultivate at the rate of three acres for every hundred acres of land, and fo in proportion according to the quantity of acres contained, or build a dwelling houfe thereon, and keep a ftock of five head of cattle for every five hundred acres, upon the fame, and in proportion for a greater or leffer quantity: And upon condition, that if the faid rent, hereby referved, fhall happen to be in arrear and unpaid for the fpace of three years from the time it became due, and no diftrefs can be found on the faid lands, tenements and hereditaments hereby granted, that then and in fuch cafe, the faid lands, tenements and hereditaments hereby granted, and every part and parcl thereof, fhall revert to us, our heirs and fucceffors, as fully and absolutely, as if the same had never been granted. Provided also, if the faid lands hereby mentioned to be granted, fhall happen to be within the bounds or limits of any of the townfhips, or of the lands referved for the ufe of the townships now laid out in our said Province, in purfuance of our Royal Instructions, that then this Grant shall be void, anything herein to the contrary contained notwithstanding.

Given under the Great Seal of our faid Province.

WITNESS William Henry Lyttelton Esquire our Captain General


Land laid out for Porcher
Isaac Brunson's Land
Black Jack new mark
by Egerton Leigh Esq Survey
day of January 1757 I
and laid out unto Thos
Plantation or Tract of
three hundred acres at
terce River in Craven
Bounding to the No
to the N Et ont W part
son and part Vacant to the So W & So Et
And hath such form
shape and marked Trees as in the above Delineated Plat
Certified the 17th January 1757
Jno Evans Dep Surr
Carolina Pursuant to a Precept
or General dated the fourth
have Admeasured
pher Singeleton a
Land Containing
the Hugh Hills of Wa
County Butting and
Won Land laid out for Porcher
on Land laid out for Isaac Brun
on Land laid out for Mathew Singell
Vol 6 page 221
300 Acres
2qo Inch
N 75 E 70.37
N 15 E 30.00
S 75 E 62.00
N 15 Wd 46.40
S 15 E 44.72
Stake 3x new mark
Hickory
Vacant
Pine
Oak
Stake & Mound

Governor and Commander in chief in and over our faid Province of South-Carolina, this Eighth Day of May Anno Dom. 1758 in the Thirty Second Year of our Reign.

William Henry (L. M. S.) Lyttelton

Signed by his Excellency the Governor in Council
And hath hereunto a plat thereof annexed, repre-fenting the fame, certified by Egerton Leigh Esqr Surveyor-General.'' William Simpson C. C.

The third paper is a copy of a grant to General Thomas Sumter by the State of South Carolina of a tract of land which had been previously completely surrounded by other claims, and serves to show the very irregular forms which resulted from this system of land division.

"STATE OF SOUTH CAROLINA

To all to whom thefe Prefents fhall come, Greeting: KNOW YE, That for and in confideration of Seventy two Pounds 6/8 d sterling money, paid by

Thomas Sumter Esquire

into the treafury for the ufe of this ftate, We have granted, and by thefe prefents do grant unto the faid Thomas Sumter his heirs and affigns, a plantation or tract of land, containing Three thousand One hundred acres Situate in the district of Camden, near the High Hills of Santee

having fuch fhape, form and marks as are reprefented by a plat hereunto annexed, together with all woods, trees, waters, water courfes, profits, commodities,

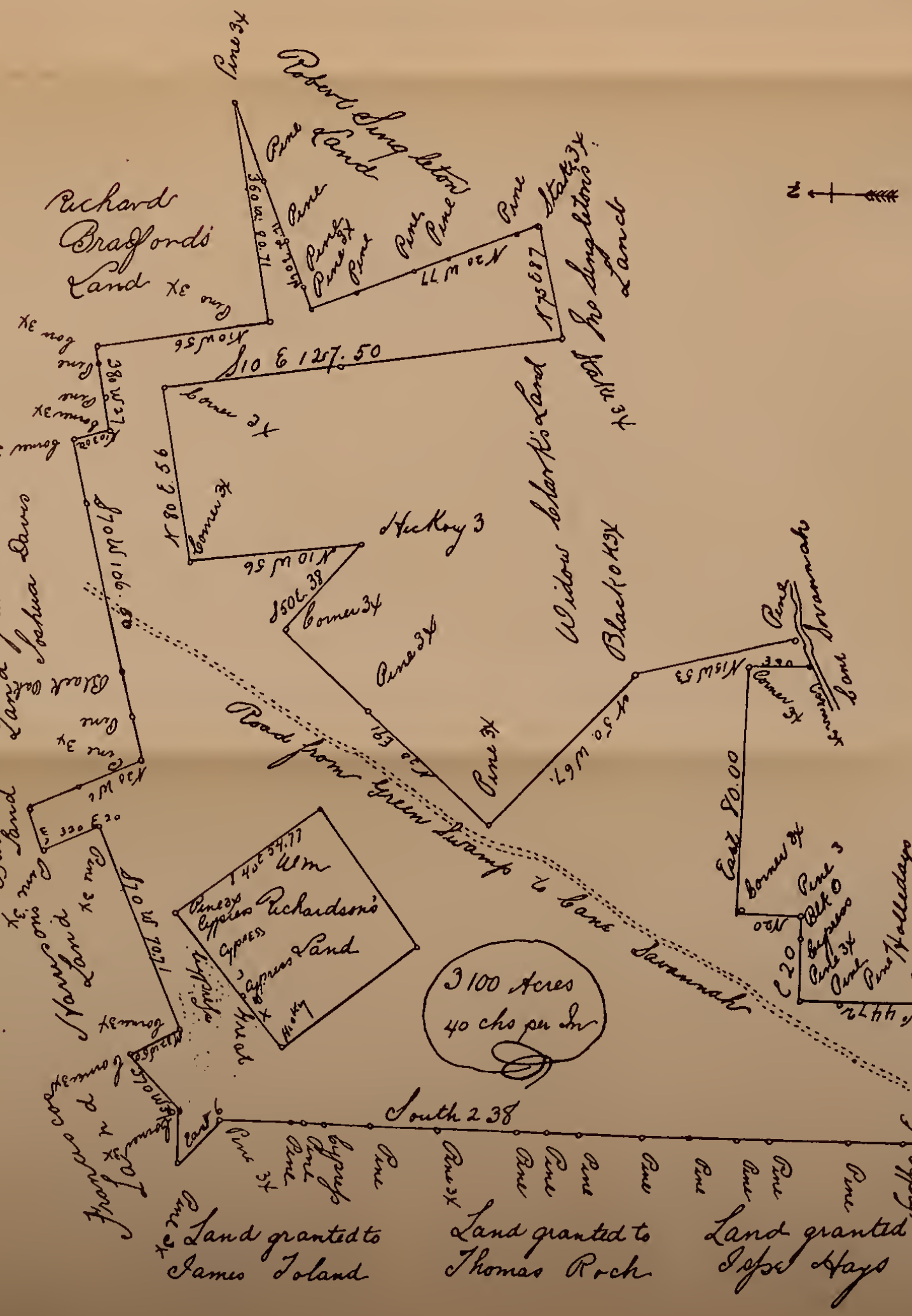
South Carolina }

I have caused to be admeasured and laid out unto Thomas Sumter Esq a Tract of Land containing Three thousand One hundred Acres situate in the District of Camden, near the High Hills of Santee and hath such form marks, buttings & boundings, as the above plat represents

Certified for the 27th day of December 1786

Josiah Cautey
D.S.

Ephraim Mitchell
Surv. Genl


Richard Bradfords Land
Robert Singleton's Land
Pine
Pine & Land
Pine & Pine
Pine & Pine
Pine
Hickory
Pine
Pine
Pine

appurtenances and hereditaments whatfoever thereunto belonging, TO HAVE AND TO HOLD the faid tract of three thousand one hundred acres of land, and all and fingular other the premifes hereby granted unto the faid Thomas Sumter his heirs and affigns, forever, in free and common focage.

GIVEN UNDER THE GREAT SEAL OF THE STATE

WITNESS his Excellency Thomas Pinckney Efquire, Governor and Commander in Chief in and over the faid State, at Charlefton, this fifth Day of March Anno Domini one thoufand feven hundred and Eighty Seven and in the Eleventh year of the Independence of the United States of America.

Thomas (L. M. S.) Pinckney

And hath thereunto a Plat thereof annexed reprefenting the fame, certified by

F. Bremar Pro
Surveyor-General
27th Decem 1786''

Throughout all of this territory there are, of course, numerous monuments, the location of which are matters of public record, and these, when they have been set by proper authority, are held in law to govern the distances and directions recited in the deed or other papers in which they are used as "calls." These monuments, however, have not been set with reference to any general plan or system but only according to the exigencies of the particular survey then being

made of certain tracts of land, and because many of these monuments were of an unsubstantial character it often becomes difficult in after years for a surveyor to find a definite starting point for his work. There were also many errors in the earlier surveys, for the reason that the obstacles and hindrances to good work and the difficulty of getting true measurements were greater before the forests were cut or the swamp lands drained.

In the time when the earlier divisions of the lands were made in these districts they were often regarded as being of comparatively little value, and errors in their survey which would now be thought serious were then regarded as unimportant and many "beginnings" and "calls" were very indefinitely described, —for instance, the title to certain Indiana farm lands goes back to a description reading "beginning at a sycamore tree on the north bank of the Ohio River about one and one-half miles south of Six Mile Island"; and valuable property in the city of Dallas, Texas, is a part of a tract of land once transferred as "beginning at the northeast corner of my cabbage patch." This last example is perhaps rather an unusual one but the first belongs to a class which is not at all uncommon, for in earlier times many divisions and transfers were made in the more unsettled districts of land which were never surveyed by any surveyor but were described in deeds according to the rough measurements and estimated directions of lines which were supposed to enclose a certain quantity of land. Streams which have since changed their course were frequently made a part of the boundaries, and

sometimes the property was simply described as being surrounded by the lands of other (named) owners, which ownership has since greatly changed, and the deeds to which may in themselves be defective.

In a majority of such cases, however, the universal recognition for many years of certain land marks and lines has probably served to establish their location with such certainty as to enable a competent surveyor to plat the land and measure its contents with sufficient accuracy for practical purposes, but in comparatively few cases can either of these things be even approximated except by such a survey for the reason that directions and distances must always yield to monuments.

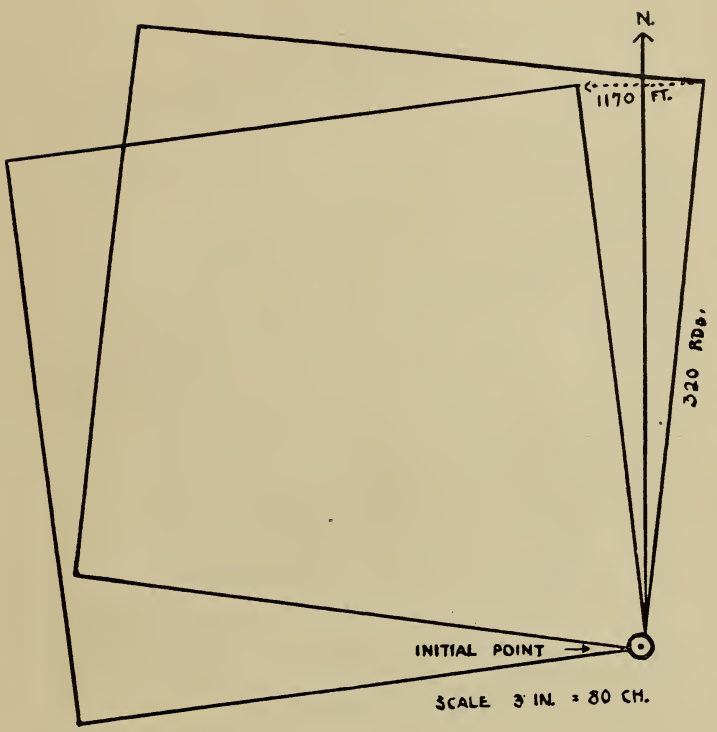
When these surveys are made they often reveal an overlapping of the lines given in the recorded descriptions and show differences from the stated acreage which have been unsuspected for years and which would probably never be discovered by the office work of platting the lands, which is quite a different matter from their actual survey in the field.

To illustrate this fact, suppose certain property is described as being bounded by certain other tracts of Real Estate, each of which has been separately surveyed but at different times, and suppose that the description to which the office man has access gives all of the distances, directions and "calls" of these various surveys but fails to give the variation of the magnetic needle at the particular time and place when each survey was made (or the dates of such surveys, which to the surveyor is practically the same information), in such a case, and it is a very usual one, it is

only by going upon the ground and finding one or more of the monuments and making a survey from them that the missing information necessary to a correct survey can be gained.

To the uninformed this lacking information may seem to be a mere technical matter, but its very practical nature will be understood when two of the fundamental facts connected with the science of surveying are taken into account. The first of these is that within much less time than that in which lands have been surveyed in this country the magnetic needle has marked both extremes of its known variation, which is not uniform and is different at different places but which at the supposed location of this illustration (near the 2nd principal meridian and the Ohio River) amounts to about six and one-half degrees on each side of the true north, or a total variation of about thirteen degrees; and the second fact is that each variation of one degree amounts to a divergence of 90 feet in each extension of one mile.

The following diagram will show the relative location of two surveys made from the same initial point and according to the same statement of angles but at the times of the greatest variation of the needle and without reference to such variations, and incidentally it will show that great discrepancies in descriptions may come to exist from this cause, and that a description which mathematically proves to itself to be correct cannot always be taken as absolutely correct, for the reason that it may not physically fit the land intended to be described.



It is very evident then that when any undated survey is made a part of a land description it is open to the above objection and that when land is entirely described by the lines of the surrounding lands a "desk" examination is especially liable to error not only from this cause but also for the reason that the danger of mistakes having been made in measurements is greatly increased, and cases might be cited where a survey has demonstrated the fact that no

land actually existed to which the given description would apply even inferentially.

The following description is a very fair example of a large class which will be found in this territory and is one that also shows the necessity of an actual survey of the land. The description may be found in the McLean County, Kentucky, records:

"Beginning at a cottonwood and ash on Green River; thence North ¾ of a degree West 349 poles; thence North 70 West 16 poles to Buck Creek; thence down Buck Creek to Green River, and thence up the River to the beginning; excepting, however, therefrom 50 acres sold to I. L. and W. G. Atchisson bounded as follows: Beginning at a sycamore on Green River, running North 11 East 172 poles; thence North 49 West 47½ poles to a water beech on Buck Creek; thence down Buck Creek to its mouth; thence up Green River to the place of beginning."

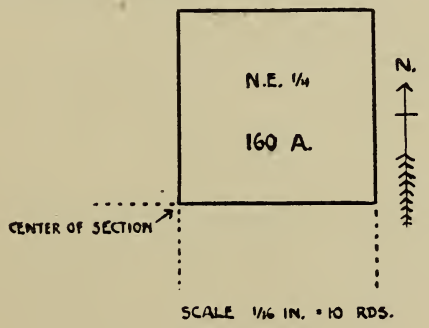
The only thing which may be definitely determined by a "desk" examination of this description is the fact that the lines along Buck Creek and Green River when taken together are at least equal in length to the hypothenuse of the angle shown by the surveyed lines and, except for the fact that the original tract was supposed to contain the "excepted" 50 acres, this does not warrant the conclusion that the contents are necessarily as much as would be included by the line of the hypothenuse.

XXXV

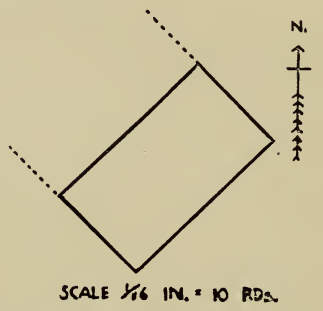
ILLUSTRATIONS OF LAND DIVISIONS

The object of these comments on the division and measurement of land has not been either to mention or to discuss them fully (and this has not been attempted), but it has only been to make sufficient explanation of such general facts as may serve to emphasize the importance which attaches to a practical knowledge of these matters on the part of the person who investigates Real Estate mortgage securities, and the following illustrations have been added in order to show more clearly the differences which will be found in descriptions made under different systems of divisions and measures:

The simplicity which is very common in those that are based upon a system of regular public survey is shown in the following two examples, one from the government and one from a State survey.



"The NE¼ of Sec. 10, Twp. 6 N.,
R. 13 W. of Indian Meridian, Caddo County,
Oklahoma. 160 acres."



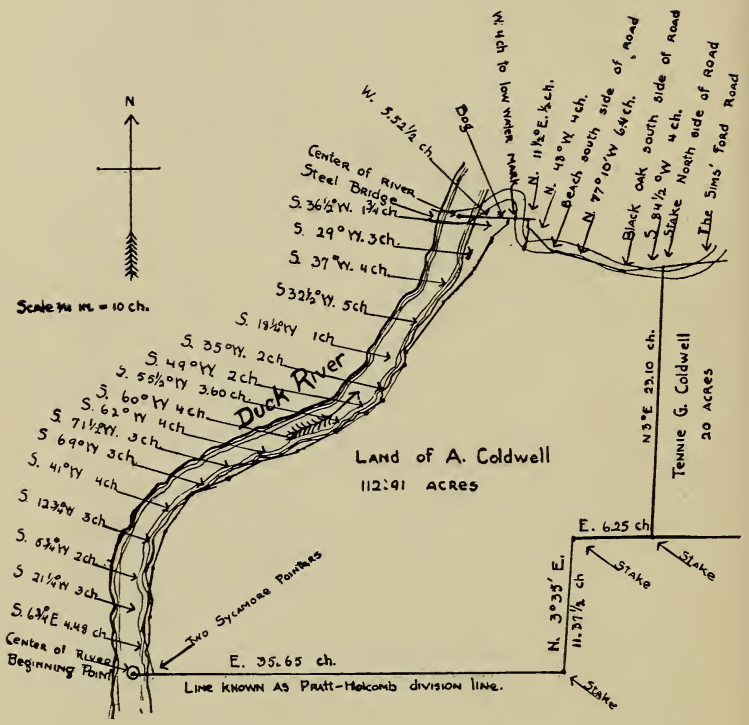
"The SE½ of Lot #122 of the
17th land district in Laurens County,
Georgia. 101¼ acres."

The more complicated nature of a description by metes and bounds of an irregular survey is shown by the following rather simple description and surveyor's certificate and map; although it is simple, this description has been somewhat lengthened by the meander lines along Duck River and it will be noticed that in the description distances are named in terms of "poles" while the surveyor has calculated them in "chains."

Description

"Beginning in the Center of Duck River, the northeast corner of the Allison tract, two small sycamores on the East Bank; thence east to a stake between said sycamores and continuing in the same course on the line known as the Pratt-Holcomb division line 142.6

poles to a stake; thence north 3 degrees 35 minutes east 45.5 poles to a stake; thence east 25 poles to a stake, the southwest corner of a 20 acre tract conveyed by Arch Coldwell to his wife Tennie G. Coldwell; thence north 3 degrees east along the west line of said 20 acre tract, 92.4 poles to a stake on the north side of the road known as "The Sims' Ford Road," and crossing Duck River at the steel bridge; thence south 84½ degrees west 15.9 poles to a black oak on the south side of said road; thence north 77 degrees 10 minutes west 25.75 poles to a beech on the south side of said road; thence north 48 degrees west 16 poles to a stake, beech pointers; north 11½ degrees east 2 poles; thence west 16 poles to a low water mark, and continuing in all 22.1 poles to the center of Duck River; thence up the River with its center south 36½ degrees west 7 poles; south 29 degrees west 12 poles; south 37 degrees west 16 poles; south 32½ degrees west 20 poles; south 18¼ degrees west 4 poles; south 35 degrees west 8 poles; south 49 degrees west 8 poles; south 55½ degrees west 14.4 poles; south 60 degrees west 16 poles; south 62 degrees west 16 poles; south 71½ degrees west 12 poles; south 69 degrees west 12 poles; south 41 degrees west 16 poles; south 12¾ degrees west 12 poles; south 5¾ degrees west 8 poles; south 21¼ degrees west 12 poles; south 6¾ degrees west 17.92 poles to the beginning in the center of the river west of a stake between two small sycamores on the bank, containing 112.91 acres, more or less."


N
Scale 3½ in. = 10 ch.
W. 5.52½ ch.
Dog
W. 4 ch to low water mark
N. 11½° E. 4 ch.
N. 48° W. 4 ch.
Beech South side of Road
N 77° 10' W 6.46 ch.
Black Oak South side of Road
S 84½° W 4 ch.
Stake North side of Road
The Sims' Ford Road
Center of River Steel Bridge
S. 36½° W. 13¾ ch.
S. 29° W. 3 ch.
S. 37° W. 4 ch.
S 32½° W. 5 ch.
S. 18¼° W 1 ch.
S. 35° W. 2 ch.
S. 49° W 2 ch.
S. 55½° W 3.60 ch.
S. 60° W 4 ch.
S. 62° W 4 ch.
S. 71½° W. 3 ch.
S. 69° W 3 ch.
S. 41° W 4 ch.
S. 12¾° W 3 ch.
S. 6¾° W 2 ch.
S 21¼° W 3 ch.
S. 63¾° E 4.48 ch.
Center of River Beginning Point
Duck River
Two Sycamore Pointers
E. 35.65 ch.
Line known as Pratt-Holcomb division line.
Land of A. Coldwell
112.91 acres
N 3°35' E 11.37½ ch.
E. 6.25 ch
Stake
Stake
Stake
N 3°E 23.10 ch.
Tennie G. Coldwell
20 acres

County of Bedford
State of Tennessee

The above is a plat of land sold by J. T. Allison to Arch Coldwell lying in the seventh civil district of Bedford County, Tennessee. Surveyed September 1st., 1900.

(Signed) J. L. Hutson,
Surveyor.

The following description from a deed (with a sketch of the land) will give an idea of the old French land divisions and measurements; it also illustrates the fact that water frontage was considered by the early settlers to be of greater importance than was a more convenient width of the tract of land, this tract being only one arpent or 192.5 feet in width and nearly sixty-eight arpents or more than thirteen thousand feet in length:

"Vetalle Bouchez and
wife, Marie Odelle
to
Amable Bouchez.
Warranty Deed, $150.00,
Dated August 5, 1823,
Recorded September 5,
1823,
Book "C," Page 210,
Knox County Records.

Conveys: All that certain tract, tenement or parcel of land containing one (1) arpent, French measure, in front on the River Wabash and extending back the same width to the Cathlenette swamp, bounding on the eastward lands now or late of the heirs of Francois Languedoc and on the westward lands now or late of Louis and Charles Languedoc, situate in the Prairie de Grand Morais, below Vincennes, containing 67.63 arpents (57.53 acres)."

In this particular case the French grant was overlaid by the Congressional Survey as is shown below by dotted lines, together with the field notes of the United States Government Surveyor, locating the

entire lot of which the above described arpent (shown in black) is the west half.

CLAIM No. 43

"Re-surveyed for Francois Languedoc 115.08 acres of land situated in Township 2 and 3 North, Range 11 West, Southwest of Vincennes in the Prairie:

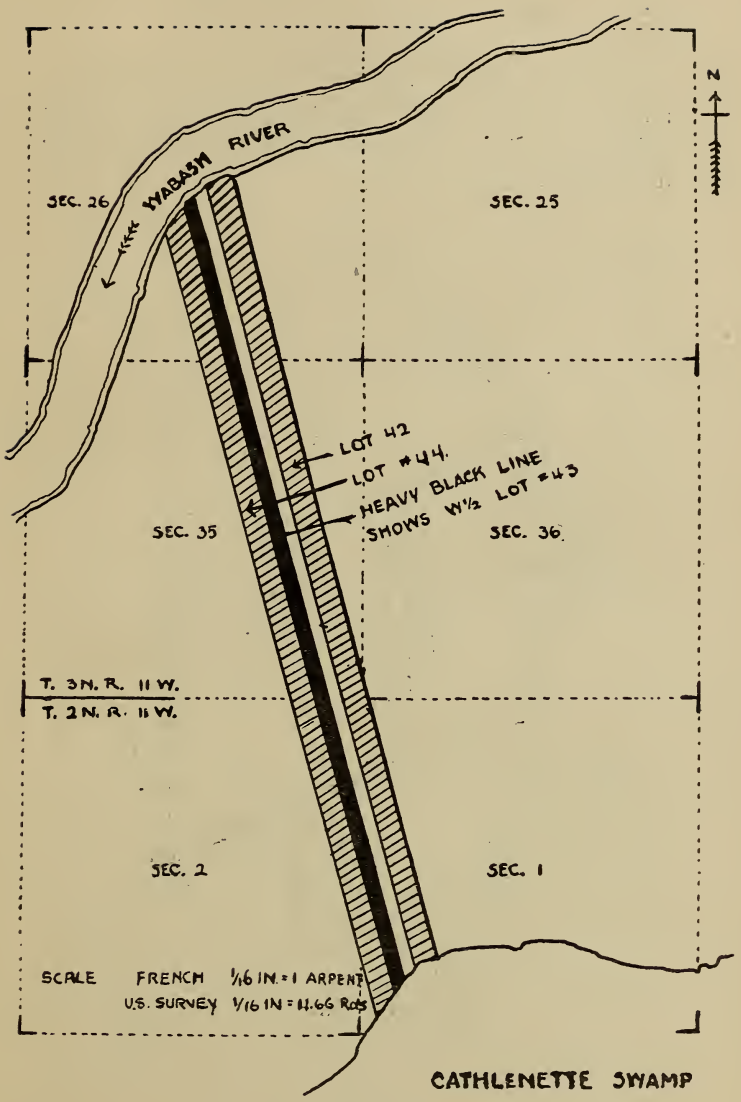
"Began at the corner of No. 42 on the bank of the River, thence South 51 West 6.47 down the River to a black oak 4 inches in diameter, the corner, thence South 14 East 197.71 to a post at the edge of the Prairie, thence North 35½ East 7.66 to the corner of No. 42, thence North 14 West 197.08 to the place of beginning."

Claim No. 44

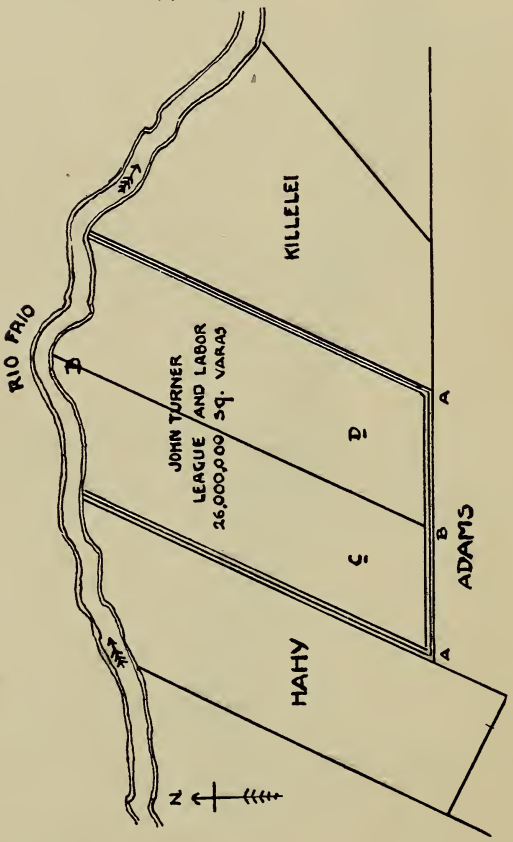
"Re-surveyed for Charles Languedoc 116.13 acres of land situated in the Prairie Southwest of Vincennes in Townships 2 and 3 North, Range 11 West:

"Began at the corner of No. 43 on the bank of the River, thence down the same South 48½ West 6.58 to a sycamore 10 inches in diameter, the corner, thence South 14 East 200.67 to post on the Cathlenette Pond in Township 2, Range 11, thence North 30¼ East 8.35 to the corner of No. 43, thence North 111 West 197.71 to the place of beginning."

Each of the above original tracts, containing 115.08 and 116.13 acres, or approximately 135.28 and 136.51 arpents, respectively, were only two arpents or 385 feet in width and about two and one-half miles in length.


N
WABASH RIVER
SEC. 26
SEC. 25
LOT 42
LOT #44
HEAVY BLACK LINE
SHOWS W½ LOT #43
SEC. 35
SEC. 36
T. 3N. R. 11 W.
T. 2N. R. 11 W.
SEC. 2
SEC. 1
SCALE FRENCH 1/16 IN. = 1 ARPENT
U.S. SURVEY 1/16 IN = 11.66 RDS
CATHLENETTE SWAMP

The following sketch is typical of Spanish-Mexican land divisions—it outlines the John Turner league and labor of land which is located on the Frio River in Live Oak County, Texas:



Whenever possible these grants were located on streams with such water frontage as could be obtained and running back therefrom (usually between parallel lines) to contain the intended amount of land (as is shown in the above sketch by the line "A.A.").

In deeds made by tenants in common for the purpose of dividing the above land into two equal parts (as shown by the line "B.B."), the portion marked "C" is described in one deed simply as "the *upper* one-half of said John Turner League and Labor" and in the other deed the portion marked "D" is more fully described as "the *lower* one-half of a League and Labor of land on the right bank of the Frio River in Live Oak County, Texas, originally granted to John Turner and known as Abstract No. 38."

"The portion of said League and Labor hereby conveyed being the eastern or lower equal one-half of said League and Labor. The division line to lie run from the Frio River to the South or back line of said Turner tract cutting said League and Labor in two equal portions."

To quote from a letter from Graham Dowdell of San Antonio, who examined the abstract of title to this land: "This grant was made on July 15th, 1833 by the Government of Mexico to a colonist, brought into Texas by one of the *empresarios* engaged in colonizing before the Texas Revolution; in this particular case the entire grant was sold for $30.00 for the League of pasture land and twenty reales or $2.50 for the Labor or 177⅛ acres of arable land.

"In order to make the description in the first deed intelligible anyone examining the title would have to

know the meaning of the words "upper" and "lower" as affecting Mexican land grants; they have nothing to do with the direction indicated by the compass, nor do they indicate valley as distinguished from "upland." They relate to the direction in which the stream flows on which the land abuts, consequently, when the "upper half" is conveyed it means the half of the grant lying up-stream.

"In the early days these people, especially Mexicans or Spaniards, rarely left written wills when they died. It was equally rare for the heirs to resort to administration proceedings upon the estate of the deceased. Upon the death of the original grantee, the heirs usually made a parole partition of the grant, dividing it into equal portions each having an equal frontage on the river, base line width, running back between parallel lines to the back line of the grant and in one Spanish land grant on the Rio Grande this method of partition has resulted in one of the remote heirs of the original grantee owning a strip of land which is only twenty-five varas, or approximately seventy feet, in width fronting on the river and running back between parallel lines for a distance of fifteen miles."

In the old times immense tracts of land were sometimes granted by the Mexican Government to "empresarios" who were engaged in colonizing that territory which afterward became a part of the United States and the beginnings and lines of these grants were often somewhat indefinite.

The record describing the boundaries of one of these grants made in 1826 (Burnet's Colony) is as follows:

"Beginning at the town of Nacogdoches; thence on a North course, the distance of fifteen leagues, to a point clear of the twenty boundary leagues parallel with the river Sabine, where a land mark shall be made; and thence on a line run west to Navasota Creek; thence down said creek with its meanderings, by its left bank, to the place where it is crossed by the road leading from Bexar to Nacogdoches; thence with said road to fork of the Bull's Hill (Lomo del Toro) road, before arriving at the military post of the Trinity, with said road to its junction with the old road; and with said old road to the town of Nacogdoches and place of beginning."

XXXVI

CONCLUSION

Various matters have been mentioned in the foregoing pages but not very fully commented upon at the time, for the reason that this would have made necessary the introduction of certain collateral and even of seemingly extraneous matters at places where their consideration might have been more confusing than otherwise.

Several of these matters are of a character that would, no doubt, warrant some additional comment and it is believed that they might be more clearly presented and the relation that they bear to the main subject made more apparent by treating them in greater detail and as separate parts of the subject, but it is also believed that such mention of these matters as has been made will serve the interests of those who are engaged in the business, and incidentally the general interests by inducing a closer study of the best practices and policies to be followed.

To persons who are familiar with the business of making or buying mortgage loans, it may seem superfluous to state that it is important for those who engage in it to be well equipped in knowledge and suited in temperament for the work; nevertheless it is true that many persons who are ill fitted in either or both respects, consider themselves capable and,

entering the mortgage loan field, act with confidence, in matters wherein the more experienced lender or investor uses much greater caution.

There is probably no other important line of business for which so many persons of limited experience therein consider themselves to be fitted; persons who for years, perhaps, have been absorbed in other affairs, become favorably impressed with the Real Estate mortgage business, and, believing the investment of money in such securities to be a comparatively simple matter, enter this field and undertake the work themselves, or employ other equally inexperienced persons to do it for them.

These are often persons who are, in a general way, well informed, and if they have made a few loans with which they have had a favorable experience—loans, for example, upon which the interest has been promptly paid, and the principal, when due, has been either paid or renewed, their confidence in their knowledge of the business is sustained, and they attribute their good fortune to their possession of a skillfulness which they are convinced will be sufficient to insure an equal measure of success with a large number of loans, with loans on various classes of property, and with loans in divers locations, when as a matter of fact they are often wholly ignorant of many of the conditions precedent to good lending as a business and of those rules which are of especial force and effect when the investor engages in extensive operations.

In this, perhaps as much as in any other undertaking, it is true that "a little knowledge is a dangerous

thing," and if the lender or investor expects to reach safe conclusions in all of the various questions which will arise, it is important that he should know the laws of conservative lending, have all of the facts before him in each case and fully understand their relative values and applicability to the matter in hand.

His temperament should be such that the task of assembling, investigating and judging the facts will be attractive rather than irksome to him; he should be able to see beneath the surface of favorable representations, and beyond the limit of present favorable conditions; he should be able to decide each case solely upon its own merits, uninfluenced by any outside conditions, no matter how attractive they may be, and should know independently of the opinion of others, why in any given case certain loan values do, or do not, exist.

It is not intended to say that if wholly favorable conditions do not exist losses will be frequent, for if ordinary caution is used this is not apt to be the case, but in this business when losses do occur they are often serious ones, and only a careful observance of all safeguards (which should be intrusted to a skilled lender) should be depended upon, and this will make negligible any danger of loss that might otherwise exist and give an additional value to any loan or collection of loans.

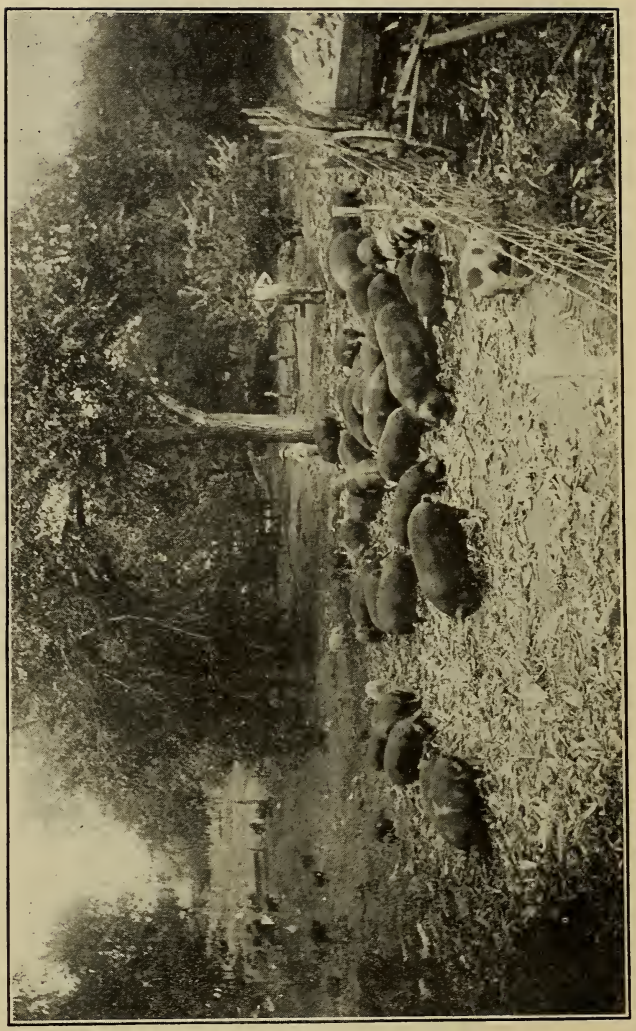
Unless the investor himself has a good working knowledge of the necessary requirements for good loans and good loan territory, he will be more or less at the mercy of borrowers or their agents, and these

persons are always interested parties who often have a very poor knowledge of what constitutes good mortgage loan security and who are sometimes unscrupulous although they will be able in almost every instance to present good credentials and will frequently be fluent and, to the investor, convincing talkers.

If unfitted for the work himself, he will be unable to pass upon the reports of his assistants with any degree of certainty as to the value of their work, and he will himself make many mistakes, the most common of which perhaps will be that of magnifying the importance of some of the minor rules of the business and applying them in cases where, under the circumstances, they are of no real force. At best he will be constantly in danger on the one hand of refusing meritorious offerings, and, on the other, of making a useless expenditure of time and money in further investigations of offerings which, if more expert, he would have condemned on the showing of preliminary reports.

Such a person may succeed in avoiding the serious mistakes that will result in an ultimate loss of capital but if he is in charge of trust funds and is conscientiously endeavoring to obtain only high class securities, the work will soon prove to be a burden which will increase as his realization of his own limitations increases.

For various reasons many poor loans are paid; sometimes this is because of the borrower's belief, or even because of his hope, that an equity which is worth protecting remains in the property; sometimes the loan is protected by the personal responsibility



MORTGAGE LIFTERS

of the borrower outside of his interest in the property mortgaged, and it also very often happens that a loan is bettered because there is an appreciation in the value of the security after the loan is made.

Of course it would be very poor business sense for the mortgagee to depend upon any such help to make his security good, but it is true that such help often does come to his aid, and therefore losses are seldom so frequent as would seem to be unavoidable to one who contemplates the unseen dangers which lie in the path of the inexperienced investor, and it may be added here, that this fact argues very strongly indeed in favor of the entirely dependable character of such Real Estate mortgages as have been selectd or made by persons who are fully competent to do so.

In concluding these comments it may not be superfluous to say that while there is no reason to suppose that the desirability of city loans will be greatly different in the future from what it has been in the past, the investor in farm loans may congratulate himself upon the fact that as a class such securities are growing better—not greatly perhaps in many sections, not rapidly perhaps in every section, but growing steadily and generally better—a condition that has been brought about by a wide-spread and intelligent effort to make improvements in farming methods, in live stock and farm equipment, in better drainage and better roads and in everything else that goes to make farm life more pleasant and the business of farming more profitable; and this effort is being materially aided and encouraged by a vast number of organiza-

tions for that purpose, from the Agricultural Department of the United States to the local corn clubs of the boys, but chiefly by the fact that the farmers themselves have very generally awakened to their opportunities and to the value of improvements along these lines; and the borrower on farm securities in sections where high interest rates prevail may congratulate himself upon the fact that with a betterment of general conditions in his section he may look forward with confidence to a betterment to him of rates and terms.

With a fuller knowledge of the subject he realizes that it has been the conditions surrounding his security and not the conspiracy of money lenders (for there has been none) that have "held him up"; he realizes that if one section enjoys better rates and terms than another it is because of good and sufficient and material reasons and he has more faith in the efficacy of common sense improvements to bettter his condition and less in such methods as the destruction of surplus crops, in organized efforts to arbitrarily govern production and prices, or in the passage of laws intended to limit and control the operation of more powerful laws. The investor in farm loans may also congratulate himself upon the fact that in no other line of investment is the prospect of the future demand for money so promising. Enormous areas are as yet agriculturally undeveloped except in the most elementary way, in very few places indeed has any approach to full development been made and in no other field is the demand for development more insistent or better grounded.

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